2021

Annual Report & Accounts

Year ended 30th April 2021

Monmouthshire Building Society

Monmouthshire
Building Society

Monmouthshire House
John Frost Square, Newport, South Wales, NP20 1PX.
Established 1869. Registered No 377B
Telephone: 01633 844 444

Contents

2021 Highlights

Results	2021	2020
Growth		
Total Assets (£ millions)	**1,385.5**	**1,247.1**
Total Mortgage Assets (£ millions)	**1,136.2**	**1,026.7**
Lending		
Gross New Lending (£ millions)	374.3	252.0
Net Lending (£ millions)	109.5	92.2
Net Interest Margin %	1.13	1.10
Capital		
Capital Ratio** (% Risk Weighted Assets)	12.87	13.81
Profitability		
Profit/(Loss) After Tax (£ millions)	1.57	(1.0)
Profit/(Loss) After Tax Ratio (% mean total assets)	0.12	(0.08)
Management Expenses Ratio (% mean total assets)	0.97	1.02
Cost Income Ratio (%) Pre-Fair Value gains/losses	86.37	92.53
Cost Income Ratio (%) Post-Fair Value gains/losses	83.07	103.83

Total Assets were £1,386 million

Common Equity Tier 1 ratio of 12.81%

Over £9k contributed to our charity of the year

Profit after tax was £1.57 million

The Society scored 96.4% for Customer Satisfaction

Underlying profit before tax* was £1.3 million

*Underlying profit before tax is profit before tax excluding fair value movements resulting from hedge accounting. The Society uses derivative instruments (swaps) to hedge interest rate risk arising from fixed rate mortgages. These swaps are intended to be held to maturity. As such, any gains or losses arising from fair value movements are timing differences which do not affect underlying cash flows. As a result, they are excluded from the Society's underlying profit or loss.

**Regulatory capital consists of statutory capital (total reserves) plus general impairment provisions less intangible assets. General impairment provisions are treated as common equity type 2 capital resource and therefore are removed from the CET1 ratio.

Chair's Review

I am writing to introduce the Annual Report for 2021; an unprecedented year in which the Monmouthshire Building Society (the "Society", "MBS") has been able to maintain a focus on delivery of wider strategic initiatives, demonstrating resilience and agility to adapt and reprioritise its plans in response to the continually changing environment. This was enabled by the response of the Society at the start of the COVID-19 pandemic to mobilise a remote workforce, change the way branches engage with members and the introduction of safety measures in response to government guidelines, in order to protect colleagues and members.

The Society's member-led approach and core purpose of 'Helping members, communities and colleagues to thrive' has been more important than ever in the current financial year. The pandemic has had an impact on the Society's ability to deliver many of the planned member propositions. However, a strong emphasis on members and colleagues has underpinned delivery throughout the period, with many digitally focused initiatives brought forward in our plans to provide servicing enhancements for members, whilst also progressing improvements in cyber security defences to protect the Society, its members and its colleagues as its operating model moved to one of remote working.

The positive results achieved highlights our member-led approach and demonstrates our core values that run through the heart of our organisation. The Society's commitment to maintaining a presence on the high street has been evident as we took over the management of the new Brecon branch from Leeds Building Society and a new Agency principal firm was brought into operation in Usk. Members have greatly appreciated the creation of an 'In Touch' initiative during the pandemic to engage with members who were identified as more vulnerable, supporting them with any concerns or updates about Society services and to ensure they were healthy and had support. We responded at pace to develop an online proposition for customers to request payment holidays for borrowers affected by the pandemic and we remained committed to helping members thrive in their homes, the Society being recognised externally by Moneyfacts Consumer Awards as the First Time Mortgage Buyers' Choice.

Financial performance in the year has been positive, the Society returning to profitability as margins have improved combined with favourable fair value movements in the Society's derivatives. The Society's decision to remain committed to its member-led strategy and promote a range of mortgage products, supporting members with lower deposits and those keen to grow their investment portfolios has delivered strong and diversified growth, with increases in margin and an appropriate balance across the product range. The Society grew its mortgage book by 11% to £1.14bn (2020: 10%), achieving a net interest margin of 1.13% (2020: 1.10%) in a very challenging environment. Performance of the mortgage portfolio remains strong, however, the impact of COVID-19 for mortgage members has not yet fully materialised as the furlough scheme and mortgage payment holidays continue being utilised. The Society has attracted £139m (2020: £108m) in new shares and deposits from its loyal members, exceeding expectations at the start of the pandemic.

A full refresh of the strategy has been undertaken with a new five-year plan commencing on 1 May 2021. The revised strategic direction reflects the excellent progress made to date by all at the Society in the implementation of its strategy and modernising the organisation, but also to recognise and reflect the risks and opportunities that are currently faced.

There have been some changes to the Board during the year. Following the resignation of Nina

Chair's Review (cont)

Hingorani-Crain in November 2020, Marian Evans was appointed to the Board in June 2021 following a rigorous recruitment process. She was selected for the role following her demonstration of a clear understanding of the sector, mutuality and the Society, her Welsh affiliation, extensive commercial background and breadth of experience.

I would like to record my thanks to the Board, the management team and all colleagues at the Society for their continued commitment, enthusiasm and dedication in ensuring Monmouthshire Building Society remains successful. I would also like to say thank you to you, our members for your support, understanding and patience at this difficult time.

DR Lewis

Debra Lewis
Chair

12th July 2021

Chief Executive's Report

The COVID-19 pandemic has been unprecedented in its nature, with a major impact on all aspects of professional and personal life as we have responded to and learned to deal with the situation.

Despite this I am delighted to report that the Society has had a successful year. At the outset the outlook was extremely gloomy with future growth and profitability at risk. Decisions taken to respond to significant housing demand have led to increased lending and retail funding growth, supporting our member-led strategy. This combined with our return to profitability leads to a more positive outlook as we move into the new financial year. Our commitment to progressing on a number of strategic initiatives demonstrates how the business has not stood still during such a difficult period.

An ambitious new strategy has been approved by the Board, building on the investment in our business over recent years, which will look to move the Society forward and ensure a long-term sustainable future.

Time for Cautious Optimism?

The pandemic has led us into unprecedented times. Large sectors of the economy are in recession including leisure, travel and high street retail whilst others such as online retail have been thriving. Retail savings rates are at or close to historic lows and property prices continue to attain new highs.

Businesses are attempting to anticipate and plan for a range of economic scenarios and continuing change for several years into the future. At the time of writing, the UK remains under lockdown conditions, although they are now being gradually eased. Until such time that restrictions are fully lifted, it remains difficult to anticipate the level of recovery for the UK and global economies. Following an extremely successful vaccine rollout across the UK, Bank of England forecasts suggest that the country will enjoy a vaccine-fuelled rebound in 2021 as restrictions are lifted with the economy possibly reaching pre-pandemic levels in late 2021. However, there is still significant uncertainty over the pace and the path of the recovery, particularly given uncertainties surrounding the effectiveness of vaccines and their effectiveness in limiting the spread of new COVID-19 variants. Additional key risks include the extent businesses adapt to new trading arrangements with the European Union, the outcome of the US-UK trade negotiations, and the degree of economic scarring caused by the pandemic.

Government intervention remains wide and varied, providing support for individuals, businesses, self-employed and charities in order to protect the economy. This has been backed by monetary policy with intervention by the Bank of England, amounting to an additional £895bn of quantitative easing, and the bank rate held at 0.10% following reductions at the start of the pandemic, a historical low. If the crisis persists, then the levels of intervention will undoubtedly continue to rise, leading to the potential for negative interest rates in the UK and higher levels of public-spending and debt for a longer period. This debt will have to be repaid in future, which could lead to a further period of increased borrowing or higher taxes as the economy recovers to pre-crisis levels. However, if current forecasts of recovery materialise, then the need for government intervention will reduce.

Many consumers are well placed to spend, this should help lead the economic recovery given the recent extremely high household saving ratios which have risen during periods of lockdown in the UK, although much will depend on how well the labour market holds up, especially after the furlough scheme ends. After an extended period of weakness, business investment is expected to gain momentum over the course of the year as companies grow more confident in the economy.

Since the housing market re-opened in the summer of 2020 there has been a rapid return to growth, aided by the stamp duty holiday and pent up demand as homeowners seek to move with a particular desire for more space. The pandemic has not been a deterrent for buyers and renters determined to make a move, if anything it has provided the impetus for households to reassess their needs including how and where they want to spend their lives. As already identified home working has led to different considerations for house hunters. Larger houses, suitable for home working and those bigger properties in more rural areas with outside space have been sought after. This has led to a withdrawal from city centre locations as commuters have made the decision that a longer journey is more tolerable on the assumption that they will work more flexibly post COVID-19. Digital connectivity is now an essential service and homes that feature a study or garden office are expected to shape new housing planning with dedicated workspaces incorporated into all new build homes.

Chief Executive's Report (cont)

The ultimate pace of the housing market recovery will depend on the state of the wider economy and the impact of both the pandemic and Brexit. If households whose incomes remain stable and secure can take advantage of historically low interest rates, then we could see sustained levels of price growth in the medium term. Conversely, higher unemployment rates and continuing uncertainty may act as a drag on consumer and business confidence and dampen the recovery in house prices and transaction levels.

Continuing Mortgage Book Growth

The Society achieved growth in gross lending of £374m in the year (2020: £252m). A key part of the Society's lending strategy is to continue to offer competitive rates for its core residential products. Maintaining a flexible underwriting approach which enables the Society to consider individual cases on their merit has proven beneficial in a year where individual circumstances have been so varied.

Borrowers returned to the mortgage market, at a time where many lenders deserted those with low deposits due to the uncertainty of how the pandemic would impact employment. The Society has remained committed to helping these members and was able to offer higher loan to value products without taking inappropriate credit risks. Investment in the Society in recent years ensured that the Society was able to mobilise quickly when the housing market reopened, and the Society's prudent mortgage lending policy and manual underwriting of every loan was advantageous in ensuring robust credit risk management. The success of the Society's Holiday Let lending portfolio continued and cautious steps were taken to re-enter the commercial mortgage market. The team will build on this as the Society moves into the new strategic planning period. The Society's decision to remain committed to its strategy and promote a range of mortgage products, supporting members with lower deposits and those keen to grow their investment portfolios has delivered strong and diversified net mortgage growth of £110m (2020: £92m). This was not expected at the start of the year following the shutdown of the housing market in April 2020 and therefore significantly exceeded the original budget of zero growth at the start of the pandemic. At the year end, the Society's total mortgage assets had grown by 11% to £1,136m (2020: £1,027m), whilst our net interest margin increased to 1.13% (2020: 1.10%).

Performance of our mortgage portfolio continues to be strong, with low levels of arrears across all areas despite the increase in the size of the lending book and the challenging economic environment. Our flexible, prudent approach to lending and underwriting practices for new lending support this strong performance. However, the continuing economic uncertainty in the macro-economic environment has led to a change in circumstances for many borrowers and loan loss provisions have been revised to reflect the incurred but not reported losses that could be incurred in the coming years. At the year-end, provisions were assessed as £1.5m (2020: £1.0m), with a charge of £0.7m (2020: £0.7m) for the year. The increase in provisions in the current year is driven by the COVID-19 pandemic. Further detail on provisions is contained in Note 11 to the financial statements.

Delivering Value and Service to our Loyal Members

In support of its core purpose, the Society embraces its responsibility to help address some of the social, economic and environmental challenges its members, communities and colleagues face, by operating responsibly and delivering a Society for its members that is sustainable and accessible to all.

Through its member-led strategy, the Society is building solutions to address members' needs. Delivering member-led propositions is a key factor that supports the Society's growth ambitions. Member feedback highlights our success in delivering value and service to our members with 95% of members surveyed saying that they would use the Society again and 94% stating that they would recommend the Society to family and friends.

The impact of social distancing, countrywide and local 'lockdowns' along with the need to restrict some services within the branch and agency network to protect colleagues and members through the pandemic, had an impact on the Society's ability to deliver many of the planned member propositions.

However, the Society's commitment to maintaining a presence on the high street is an integral part of its strategy and this has remained strong throughout. The Society has successfully built a relationship and onboarded a new Agency principal firm to operate in Usk that will provide a cost-effective solution, creating greater opportunity with a more spacious premises located in a prime position within the town for members.

The Society also took the opportunity to work closely with Leeds Building Society to take over the management of its Brecon branch, which fits directly with the Society's strategy of expanding its branch footprint within the core region, supporting our communities. Following a seamless transition for colleagues and members, the branch officially transferred to the Society on 4th January 2021.

We remain predominantly retail funded and our future strategy will ensure that this remains the case. Despite record low interest rates, we have maintained competitive savings rates for our loyal investing members across all distribution channels. Retail funding and deposits inflow was £139m (2020: £108m) for the year with strong performance across the investment product range.

The Society still plans to increase its product range and enter the digital arena in order to attract new membership from a younger demographic and increase existing member loyalty and brand awareness. In addition the Society is committed to introducing a range of green mortgage products and is the first mortgage lender in the UK to adapt its lending affordability calculations to recognise home energy efficiency, potentially increasing the maximum affordable mortgage by up to £12,000 for a very low energy home, compared to a poorly performing property.

Recognising the age profile of Society members and therefore the number who at the start of the COVID-19 pandemic found themselves within the 'shelter' category introduced by the Government and unable to leave their homes, the Society created an 'In Touch' initiative. In Touch is a service with only one purpose; to check in and chat to Society members about any concerns or updates about Society services and to ensure they were healthy and had support. Feedback has been consistently exceptional with members feeling valued that their Society has reached out. Given the success of the initiative and the positive outcome for members, it will be taken forward into the updated strategic plan.

The Society is also committed to delivering on its purpose to help members thrive in their homes, and in the case of first-time buyers the Society has consistently made the purchase of a first home as simple as possible. With competitive, value for money products that are continually available and easier access to a choice of distribution channels, the Society has supported 1,057 new members onto the property ladder in the current financial year. Our performance in this area was recognised externally by Moneyfacts Consumer Awards as the First Time Mortgage Buyers Choice at its prestigious industry 2021 awards ceremony.

Investing in our Infrastructure

Technology is central to much of what the Society delivers, its interactions with members and management of its products. Whilst continually enhancing technical resilience has been a core component of the Society IT strategy for several years, the need to deliver a safe and resilient solution to facilitate the mobilisation of a remote workforce as the COVID-19 pandemic took hold, led to the Society reprioritising several strategic solutions.

The Society has delivered a Microsoft Virtual Desktop solution that has enabled all colleagues to operate effectively from remote locations. Increasing the pace of delivery of the Society's cloud-based strategies has continued with the engagement of a third party, Cyberguard, to provide the Society's outsourced Security Operations Centre. This provides the Society with round the clock servicing to monitor all suspicious activity and ensure cyber defences are operating as intended.

The Society also reprioritised a number of member facing solutions to assist with services during periods where government guidelines required the public to stay at home during the pandemic. These solutions supported online mortgage repayment holidays, online mortgage rate switches, online saving bond maturities and digital savings application forms.

Our People and Culture

Key to achieving the strategy is the ongoing development and support of the Society's colleagues and inclusive culture, which encourages the core values of the Society to be central to all business activities. As the country emerges from the pandemic, the Society aims to achieve a unique, dynamic working culture that serves to attract the best talent and retain existing colleagues to create an environment which rewards achievement and fosters success remains its ambition.

Chief Executive's Report (cont)

The year brought many challenges for the Society's colleagues throughout the pandemic with branch colleagues adapting to new ways of working including distancing and working using personal protective equipment and most head office colleagues working from home. Despite these challenges the Society continued to onboard and recruit new colleagues. We also remained committed to the Financial Services Graduate Scheme ensuring all participants continued to gain experience with the Society.

Learning and development was conducted online and focussed on wellbeing support, with timely webinars delivered covering topics such as personal resilience and remote leadership, to support colleagues and leaders throughout the pandemic. Other wellbeing activities were also encouraged, keeping colleagues interacting with each other and supporting mental health. Throughout the year various activities were organised including a buddy initiative, lunchtime chat sessions, online quizzes, a wellbeing advent calendar and interest specific online social groups were created including a running club and a support group for parents who were home schooling.

As part of the Society's aim to engage with colleagues in a variety of ways, a colleague forum was launched this year. The forum aims to ensure open communication and the opportunity to effectively understand colleagues' views and interests. Representatives from across the business meet to discuss feedback and ideas on a wide range of Society activities. Feedback is provided directly to the Society's Executive Committee.

The Society used £75k under the Government's Coronavirus Job Retention Scheme to protect colleague jobs when the pandemic forced the economy into lockdown and its business activities were severely affected. All furloughed colleagues returned to their roles at the Society during the summer when activity increased. The improved performance at the Society has meant that there have not needed to be any redundancies related to COVID-19. We were delighted to announce the repayment in full of furlough monies received given these improved conditions. This is a strong reflection of our mutual values and enables the money to be redistributed amongst the sectors that are most in need of support during these difficult times.

Improved Financial Performance

We have recorded an underlying profit before tax for the year of £1.3m (2020: £0.2m) and a statutory profit after tax of £1.6m (2020: loss £1.0m). As a mutual, it is first and foremost in our minds that we must balance the needs of our savers and borrowers as well as deliver profit for the business which will help us to keep the business secure. Currently, generating profits is the only way that the Society can create more capital to invest in its future and provide essential protection for the Society and our members.

Financial performance in the year has been better than forecast, with strategic lending solutions securing higher margin. However, this follows a period during which the Society has seen decreasing net interest margin and an increasing cost basis that has led to significant margin pressures. Net interest margin is forecast to improve further, reversing the trend of the last few years. Loan provision costs also remain high as a result of continued market uncertainty. An increased charge of £551k has been made against incurred but not reported losses that could arise following the end of the furlough scheme and the wider impact on the macro environment post the pandemic, affecting members whose income has been directly affected by the pandemic. Calculating a provision while still operating amidst such uncertainty in the market requires the exercise of judgement, as there is no precedent on the levels of mortgage defaults that will arise.

The Society continued to manage its liquidity to support lending and increase its balance sheet. Liquidity increased to 18.2% of shares and deposit liabilities from 17.9% in 2020.

It was pleasing to note that the Society has started to grow into its cost base with the Society's management expense ratio falling to 0.97% of mean assets from 1.02% in the prior year. The Society's cost income ratio decreased to 83.1% from 103.8% in the prior year. This was predominantly because of net interest income receivable increased as the loan book grew at improved margins and costs grew at a slower rate. Cost income ratios are budgeted to reduce going forward. This is because significant amounts have been invested in the Society's infrastructure before the benefits of the investment can be seen.

We have continued to focus on ensuring the Society's balance sheet is safe, secure and fit for purpose for both the regulatory environment of today and that of the future. The Society has sufficient levels of capital above its regulatory requirements, a solid foundation to achieve increased levels of growth for the remainder of the strategic plan. Our capital position is more than sufficient to meet our regulatory requirements. Our Common Equity Tier 1 ratio, which looks at our capital levels against our risk weighted assets is 12.87% (2020: 13.81%).

There still remains uncertainty in relation to the Society's defined pension scheme liability. This arose following a legal review of the enactment of prior changes to the rules of the scheme, instigated by the Society as part of the closure of the scheme to future accrual. The overall liability increased in the prior year financial accounts, reducing the Society's capital surplus and the potential for further increases to the liability remain. However, this will not impact on the long-term sustainability of the organisation. See Note 21 for further details.

The Future

I have outlined the considerable activity that has been undertaken in the last financial year as the Society seeks to deliver on its purpose of helping its members, communities and colleagues thrive today and tomorrow. Decisions taken will help shape the Society's long-term sustainability in the world following the end of the pandemic. Our colleagues have been instrumental in the successes that we have achieved and will continue to strive to deliver the best service for current members and generations to come.

I am extremely proud of what the Society has achieved in the year and the support of all colleagues and our members in getting us to where we are today.

William Carroll
Chief Executive
12th July 2021

Strategic Report

The Strategic Report seeks to provide a fair, balanced and understandable review of the Monmouthshire Building Society Group's (the "Group") business model and strategy, and the environment in which it operates. A discussion of the business' performance in the year including key performance indicators ("KPIs") is included in the Chief Executive's Report.

Our Business Model

Monmouthshire Building Society (the "Society", "MBS") is a purpose led, strong, regional building Society which is primarily focused on providing residential mortgages and is funded substantially by members' savings accounts. It has a proud mutual heritage, playing an important part in our communities.

Our ambition to serve our members and local community runs through our culture and decision making and is key to ensuring we are building a safe and sustainable business that our members trust. Our Purpose, Vision and Values are at the forefront of everything we do (see 'Our Purpose, Vision and Values' graphic below).

Our Strategic Focus

The macro environment in which MBS operates is continually monitored as it is constantly changing. The Board has considered the Society's key strategic capabilities within its operating environment that are most likely to impact on the development of strategy, whilst managing threats and weaknesses in order to ensure that the Society continues to deliver on its purpose, evolving within its environment and differentiating itself to ensure continued relevance and longevity. There is key focus in the following areas:

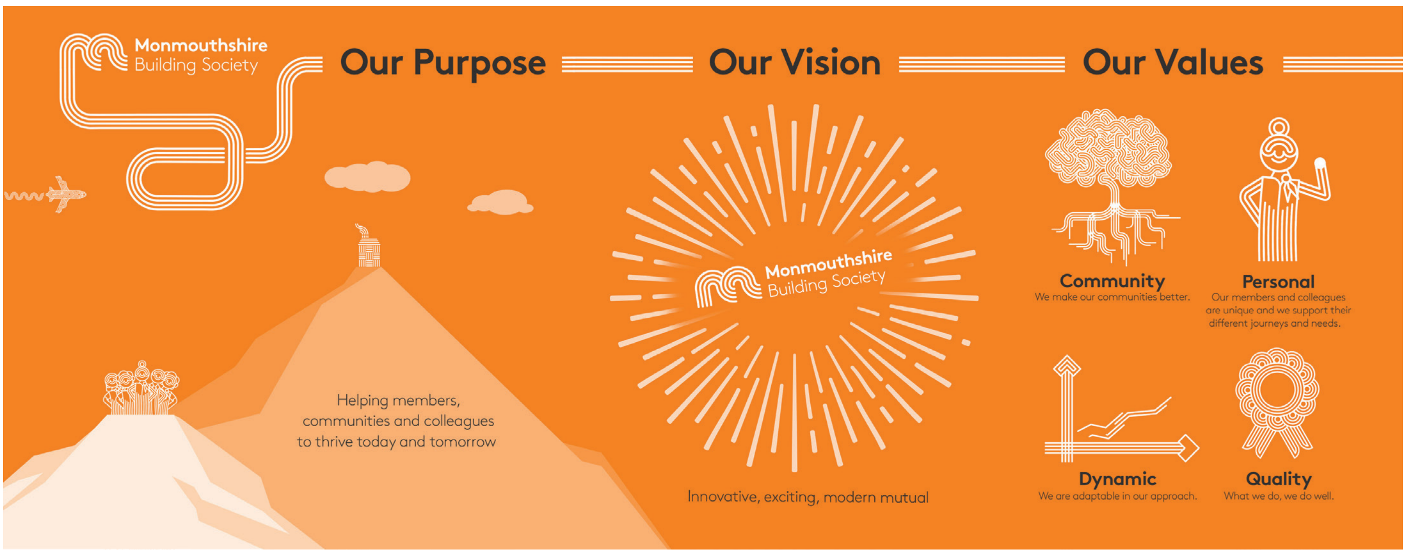
Community Support: A core value of the Society, MBS actively supports the communities in which it operates and seeks to make an impact in these communities through its business operations, colleague led initiatives and community projects.

Capital: The mutual model relies on internally generated profitability to grow the capital base. Sufficient capital must be available to support the future growth ambitions of the business and secure long-term sustainability for the Society.

Technology: A key enabler to implement the Society's member-led propositions and maintain operational resilience is the Society's investment in technology. Continued progression in the Society's digital journey must be maintained.

Lending: To support the Society's strategy and purpose, cautious steps have been taken to re-enter the commercial mortgage market. The Society will build on this and increase lending in this area throughout the period of the strategic plan.

Delivery: The Board has an ambitious strategy for the Society with a growth target of reaching over £2bn during the strategic planning period. There are several key strategic initiatives in flight that require implementation to deliver the strategy. The Society's dedicated change



function continues to be embedded within the business ensuring the Society's operational resilience and future success.

Agile Working: The structural changes caused by the pandemic have led the Board to reconsider the way in which colleagues work with a balanced home/office working environment being considered. This will require consideration of the impact on the Society's needs in terms of premises for its back-office operations.

Our Strategy

In July 2017, the Board committed to a 5-year strategy of achieving long term sustainable growth, with the aspiration of the Board to become a £2bn Society over the strategic planning period. The strategy was underpinned by several key member-led strategic priorities aimed at developing the Society's infrastructure and capabilities with the vision of Monmouthshire Building Society becoming "a modern mutual".

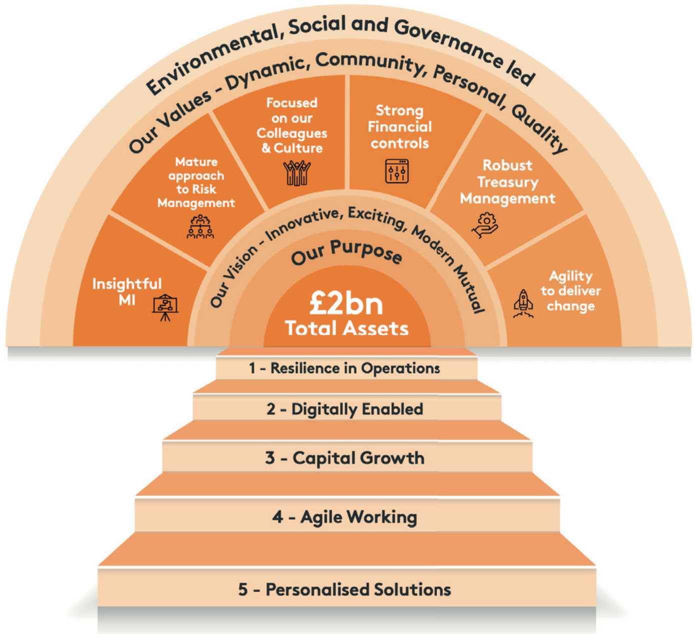
In April 2020, as the COVID-19 pandemic unfolded, much uncertainty was introduced to the Society's strategy. The Board agreed that rather than refreshing the strategy at this time, a one-year short-term business plan that was reflective of economic and social challenges would be appropriate. The resulting plan was extremely prudent, exercising caution at the start of the pandemic in the face of extreme uncertainty, with priorities focused on the resilience of the business and ensuring continuity for existing members.

A full refresh of the strategy has now been undertaken with a new five-year plan commencing on 1 May 2021. The revised strategic direction reflects the excellent progress made to date by all at the Society in the implementation of its strategy and modernising the organisation, but also to recognise and reflect the risks and opportunities that are faced; the shift in the macroeconomic landscape caused by the COVID-19 pandemic that has continued for a longer period than was predicted, the structural changes to the operating environment that this has caused, continued margin pressures arising from the low interest rate environment and intense mortgage market competition, and the impact of the current position on the Society's financial resilience.

Approach

The Society strategy continues to recognise the strength of its core functions, delivering strong governance and robust controls sitting below the Society's Enterprise Risk Management Framework (ERMF) that has now matured in its adoption across the business.

As the Board now embarks on delivery of the Society's new 5-year plan, there are five key steps for strategic deliverables to align to:



The Society's Mutual ethos has always informed decisions, and with the Board demonstrating its commitment through Environmental, Social and Governance (ESG) led priorities that flow through its deliverables, the Society is more aligned with its members, communities and colleagues than ever before.

Environmental

While for many companies their environmental criteria will include such things as its use of renewable energy sources, its waste management programme, how it handles potential air or water pollution and their company attitude and actions in relation to climate changes issues, the Society recognises that the opportunity exists more broadly to consider the community, existing and new members impact on the environment.

Strategic Report (cont)

To address the issues faced, the Society will work in partnership with Sero Homes, a Welsh business creating innovative solutions by building true zero carbon, sustainable, innovative, high quality homes that are friendly to wildlife and the environment. The partnership will strengthen as the Society adapts the position of founding partner on a secondary scheme, optimised retrofit, whereby homes are adapted to take them to their lowest achievable carbon footprint.

Social / Economic

The Society is committed to making a difference to the social and economic wellbeing of our colleagues, members and communities through the key strategic initiatives.

Taking learnings from the experiences of the pandemic, the Society is focused on creating an agile working environment that encourages flexibility and diversity within the workforce, recognising the differences between each individual colleague and presenting solutions to support them.

Placing emphasis on mutual trust and honesty to measure positive outcomes with increased retention and positive attraction of the best talent to create an environment which rewards achievement and fosters success remains its ambition.

To truly support its members the Society must first understand their circumstances, the communities they live in and the challenges they face. Through the introduction of enhanced customer insight and segmentation tools, the Society will build on what is already known and ensure products and services are focused on the issues faced by communities across Wales.

Governance

The Board is responsible for ensuring the appropriateness of the Society's overall approach to Environmental and Social issues; therefore, approval of the Society's ESG strategy remains with the Board.

To deliver the environmental related aspects of the ESG strategy, with specific focus on climate risk, relevant governance structures have been adopted. Project governance is utilised to ensure scope is clear, budgets, timelines and accountabilities are visible, to ensure appropriate levels of engagement throughout the Society.

Governance structures must also be effective in promoting a strong understanding of the risks and embedding the chosen approach within the risk management framework. However, they must not be so onerous to prevent the organisation moving quickly, utilising the benefit of its size to gain competitive advantage.

To successfully build and deliver an innovative, exciting and modern mutual that grows to a sustainable and profitable business is ambitious but achievable. With focus on ensuring delivery addresses the environmental, social and economic issues and challenges faced by members, colleagues and communities, the Board has created a strategy for the Society that is engaging and purposeful.

Debra Lewis
Chair
12th July 2021

Directors' Report

Non-Executive Directors

Debra Lewis
Chair

Debra Lewis

Debra joined the Board in 2014 as a non-executive director and became Society Chair in April 2018. She is the Chair of the Nominations Committee. On 1st May 2020 she became a member of the Remuneration Committee.

Career
Debra is an independent member of several investment committees for Rothschild & Co. She qualified as a Chartered Accountant with Ernst & Young and worked with them in both London and Sydney. She then spent over 18 years in the City with Rothschild & Co, initially in internal audit and then held a variety of roles in lending, debt advisory and latterly as Head of Credit, overseeing lending activities before assuming her current role as a Consultant.

Skills and Experience
Debra grew up in South Wales, is a Fellow of the Institute of Chartered Accountants in England and Wales and holds an LLB law degree from University College Cardiff. Debra has a wealth of financial and commercial experience in accountancy and financial services. She contributes to the Board financial insight and commercial acumen as well as leadership and boardroom experience.

Tony Morgan
Non-Executive Director

Tony Morgan

Tony was appointed to the Board in 2013. Tony is Chairman of the Audit Committee and is a member of the Remuneration Committee.

Career
Tony previously worked for PricewaterhouseCoopers (PwC) as Senior Partner in Wales and Deputy Chairman of the Wales and West Region. He spent nearly 33 years with PwC including 22 years as a partner of the firm. During his career, he was based in Cardiff, London and Sydney, where he carried out a wide range of accountancy, audit, investigation and governance assignments for PwC clients in the UK and overseas.

Subsequent to his retirement from PwC he has undertaken roles at the University of South Wales as Governor, Chair of the Finance & Resources Committee and member of the Remuneration Committee; at the Welsh Assembly Commission as Independent Adviser and Chairman of the Remuneration Committee; and also at Geldards Law Firm as Chairman of the Audit Committee and as an independent adviser as well as being a non-executive director of Power Poles Ltd.

Skills and Experience
Tony is a Fellow of the Institute of Chartered Accountants and holds a BSc (Hons) degree in chemistry. He brings to the Board substantial experience in accountancy and audit matters.

The biographies of the Directors are set out here and include specific reasons why their contribution is, and continues to be, important to the Group's long-term sustainable success.

Directors' Report (cont)

Roger Turner

Senior Independent Director and Non-Executive Director

Roger Turner

Roger was appointed to the Board in September 2015 and is a member of the Nominations, Audit and Risk Committees. He is the Society's Senior Independent Director.

Career

Roger has some 31 years' experience in the financial services sector, most recently as the Head of Group Capital and Treasury at Schroders plc and now CEO of an asset management firm in London. His experience is wide ranging, having been a trader in fixed income and derivatives and also as a regulator, in addition to his extensive consultancy experience as a partner in the Financial Services Regulatory Practice of PricewaterhouseCoopers from 1997 to 2009.

Roger has worked predominantly in the UK but has substantial experience of working for organisations overseas, most notably in the Far East and USA, and his clients have included both corporate bodies and governments.

Skills and Experience

Roger holds a BA (Hons) in Business Studies and an MBA in Finance from City University Business School. He contributes to the Board considerable wide-ranging experience in the financial services sector including Treasury, Corporate Finance and regulatory matters.

Trevor Barratt

Non-Executive Director

Trevor Barratt

Trevor was appointed to the Board in July 2016 and is Chairman of the Risk Committee and a member of the Audit Committee.

Career

Trevor has over 25 years' experience as a senior executive in governance and risk management, with the majority of this time spent in mainstream retail and commercial banking.

For several years he was the Head of Strategic Risk for Lloyds TSB, working within the Group Risk function, and subsequently he became the Chief Risk Officer of Charities Aid Foundation Bank, before moving to Duncan Lawrie Private Banking Group as an Executive Director, prior to taking up his current role. He was a non-executive director of a private bank, with an international clientele.

Skills and Experience

With extensive experience across both small and large entities, Trevor is a specialist in risk, and he brings to the Board experience which spans business risk, governance, and fighting financial crime. An Associate of the Chartered Institute of Financial Services, Trevor gained a Postgraduate Diploma before completing a Master of Business Administration from Sheffield Hallam University. He is also a Fellow of the International Compliance Association. Trevor also holds the FT Advanced NED Diploma.

Liz McKenzie
Non-Executive Director

Liz McKenzie

Liz is the Chair the Remuneration Committee and a member of the Nominations Committee.

Career
Liz started her career in manufacturing and held a number of roles with Toyota Motor Manufacturing. She was latterly the Assistant General Manager and a member of the senior leadership team. In a transition from manufacturing to financial services, Liz joined the Wesleyan Assurance Society in 2010. She held a number of senior roles and was latterly Chief Operating Officer from 2015 to 2017. Liz is Chair of IoT start-up Tended and Remuneration Committee Chair at the Brunel Pension Partnership.

Skills and Experience
Liz has a degree in Production Engineering and contributes to the Board a wealth of experience of transferring manufacturing best practice into financial services in areas such as operational improvement, people development, transformation, and IT, driving cost management and income growth.

Marian Evans
Non-Executive Director

Marian Evans

Marian joined the Board on 24th June 2021 as a non-executive director. She is a member of the Risk Committee and the Remuneration Committee.

Career
Marian is the founder of Elevate Business Consultancy and in her capacity as its MD and qualified Executive Coach and Facilitator works with some leaders of the UK's top organisations. She has also built and manages a successful property portfolio within Wales. Marian serves as a non-executive director on the Board of the Cirencester Friendly Society and was a non-executive director of the Federation of Agricultural Brokers. During her career, Marian was Head of the Schemes Division at Thomas Carroll Group from 2014 to 2016 and worked for NFU Mutual Insurance Society between 2001 and 2014 holding various roles of increasing responsibility.

Skills and Experience
Marian grew up in Wales and is a Welsh speaker. She is a qualified Chartered Insurance Practitioner and Broker and a qualified Executive Coach and Mentor. She brings to the Board 18 years' experience in the financial services and property investment sector at all levels of business from grassroots up to strategic and advisory. Marian was the Winner of Inspirational Woman of the Decade 2019 and UK Mentor of the Year 2018. Marian is also a Fellow of the Institute of Leadership & Management and a Fellow of the Chartered Management Institute.

Executive Directors

William Carroll
Chief Executive Officer

William Carroll

Will joined the Society in 2004 and was appointed to the Board in 2009 as Finance Director. In 2017 he became Chief Executive Officer. Will is accountable to the Board and responsible for leading the development and execution of the Society's long-term strategy in the interests of members. Will is responsible for all day-to-day management decisions and for implementing the Society's short and long-term plans.

Career
Will previously worked for Deloitte and was involved with a wide range of audit work in a variety of different industry sectors. He has been with the Society for 17 years and in that time has been responsible for various departments including Finance, Treasury, Customer Services and Arrears.

Skills and Experience
Will is a Fellow of the Institute of Chartered Accountants. He holds a Master's degree in Leadership and Management from the University of Loughborough. Will has a great understanding of the Society and the building society sector, and significant experience in financial management.

Iwan Jones
Finance Director

Iwan Jones

Iwan was appointed to the Board as Finance Director on 1st April 2018 and is responsible for the Financial Control, Middle Office and Treasury functions within the Society.

Career
Iwan started his career with Touche Ross (now Deloitte) and held various Finance and Risk roles in financial services organisations both in the UK and overseas including Lloyds TSB, Saffron Building Society, Principality Building Society, Barclays, JPMorgan Chase and NatWest.

Skills and Experience
Iwan has 30 years' experience within Risk and Finance. He is a member of the Institute of Chartered Accountants in England & Wales. Iwan contributes considerable broad-based experience in financial management to the Society including business development, strategy, corporate finance, product development and risk management.

Dawn Gunter
Chief Operating Officer

Dawn Gunter

Dawn joined the Society in September 2017 initially as Director of Distribution before she moved into the role of Chief Operating Officer. She was appointed to the Board in February 2018. Dawn is responsible for the Operations and Distribution within the Society.

Career
Before joining the Society, she was most recently Head of Operational Strategic Design & Delivery at Sainsbury's Bank and before that she held the role of Head of Mortgage Operations. She was contracted for 16 months with the Welsh Government on Executive Projects to create a culture of continuous improvement, drive change and deliver business efficiencies. Dawn also spent 11 years with the Principality Building Society in various roles including the Head of Direct Channels. She has worked in Legal & General and Bank of Wales Plc.

Skills and Experience
Dawn contributes to the Society over 30 years' experience within financial services and is skilled in the formulation of strategy and delivering change. She has a wide breadth of knowledge across all operational functions and distribution channels with success delivering both a direct to consumer and business to business sales and service proposition and most recently, building an outsourced managed service business.

Directors' Report

In Respect of Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Society and its subsidiary undertakings:

- keep adequate accounting records in accordance with the Building Societies Act 1986; and
- take reasonable care to establish, maintain, document and review systems of control as are appropriate to the business in accordance with the rules made by the Prudential Regulation Authority ("PRA") under the Financial Services and Markets Act 2000.

They have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

External Auditor

In line with the Society's policy, a competitive audit tender was conducted in June 2020. As a result of the tender, the Audit Committee recommended that BDO were appointed as the Group's external auditor beginning with the current financial year commencing 1st May 2020.

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as they are aware, there is no relevant audit information of which the Group's auditor is unaware
- They have taken all the steps that should be taken by a Director in order to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Capital Requirements Directive IV (CRD IV)

In compliance with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting we disclose the following information:

- All of the Group's activities are undertaken in the United Kingdom only. Monmouthshire Building Society is the parent entity and a list of its subsidiaries can be found in Note 12 of the accounts. The principal activities of the Group can be found in the Strategic Report.

Capital

The Society's latest Pillar 3 disclosures can be obtained from the Society's website. The capital ratio at 30th April 2021 was 12.85%.

Mortgage Arrears

At 30th April 2021 there were 109 mortgage loans (2020: 139) one month or more in arrears, with total amounts outstanding of £11,947k (2020: £17,076k) and 18 mortgage loans (2020: 8) with outstanding payments twelve months or more in arrears, with total amounts outstanding of £2,270k (2020: £1,714k). As of 30th April 2021, payment holidays in respect of 1,483 mortgage loans had been granted of which 43 (2020: 863) remained in place. Those payment holidays granted under the government scheme (1,483) have not been treated as arrears in line with Government guidelines.

Supplier Payment Policy

The Group will discharge suppliers' invoices within agreed terms when they fully conform to the terms and conditions of the purchase.

Events Since the Year End

The Directors consider there have been no events since the end of the financial year which would have a significant effect on the financial position of the Group.

Future Developments

Details of future developments can be found in the Strategic Report on **pages 9-11**.

KPIs

Details of the Group's KPIs can be found in the highlights on **page 1**.

Principal Risks and Uncertainties

The principal risks and uncertainties to achieving the Group's strategic priorities together with our mitigating actions can be found in the Risk Management Section on **page 51**.

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 30th April 2021 (2020: NIL).

Charitable Donations

A total of over £9,111 was raised for Shelter Cymru, our chosen charity of the year, which provides help and support to the many people in our nation who are facing the trauma of homelessness. The Society's independent Charitable Foundation continues its aim of support for our local communities, awarding £15,211 (2020: £35,696) to 27 great causes during the year.

Financial Instruments

The Society's use of financial instruments is contained in the Society's Accounting Policy Section on **pages 77-86**.

Long-Term Viability and Going Concern

The UK Corporate Governance Code requires a longer-term viability statement. Provision C.2.2. of the Financial Reporting Council's UK Corporate Governance Code requires the Directors to explain how they have assessed the prospects of the Group; over what period they have done so and why they consider that period to be appropriate. The Directors should state whether they have a reasonable expectation that the Group and Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The Directors have a reasonable expectation that the business can continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. The Directors have determined that a three-year period of assessment is an appropriate period over which to provide its viability statement. The three-year period is considered to be most appropriate as it is the longest period over which the Board considers that it can form a reasonable view of the likely macroeconomic environment and associated key drivers of business performance. As part of the annual Group Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), the Group stresses its capital and liquidity plans respectively, under "severe but plausible" stress test scenarios, in line with PRA requirements.

The ICAAP ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged in the Strategic Plan. A capital buffer is held to ensure the Group can deal with any erosion in its capital and meet its capital requirements at all times.

The ILAAP tests ensure that the Group holds sufficient liquid assets to meet its liquidity needs not only under normal circumstances but if the Group were to enter into a period of stress.

The coronavirus pandemic has caused significant disruption to the UK economy and the markets within which the Society operates. However, we remain confident that the Society's high-quality balance sheet, robust capital ratios and careful approach to managing risk will continue to underpin its financial strength and place it in a strong position to continue to grow. The Society's ICAAP uses the Bank of England's stress testing scenarios and has found its capital position to be robust enough to withstand those suggested stressed scenarios.

In making this long-term viability statement the Board has taken into account its current position and performed a robust assessment of the principal risks and uncertainties that would threaten the business model, future performance, solvency or liquidity of the Group. These risks are described in the principal risks and uncertainties section of the Risk Management Report. The Group's Risk Management Framework and governance structure in place to deal with these risks are described in the Risk Management Report.

After considering the Group's capital and liquidity positions, the Board has a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the next three-years.

Directors

The details of the Directors are shown on **pages 12-16**. In accordance with best corporate governance practice, all Directors will offer themselves for re-election. Marian Evans who was appointed to the Board on 24th June 2021 will stand for election.

Signed on behalf of the Board

DR Lewis

Debra Lewis
Chair
12th July 2021

Corporate Governance Report

This Corporate Governance Report sets out the Society's approach to governance in practice and how decisions are made to promote the long-term success of the Society for the benefit of its stakeholders.

The Society is not required to fully comply with the UK Corporate Governance Code (the Code). However, the Board pays due regard to it when establishing and reviewing the Society's own corporate and governance arrangements. This report explains to our members how the Society applies the principles in the Code so far as its provisions are relevant to Building Societies. As the Code applies to companies with a premium listing of equity shares there are departures from the Code as a result of the business being structured as a building society, rather than a company, and being owned by you, our members, rather than shareholders. Building Societies are mutual organisations and operate on a one member one vote principle.

The Building Societies Association states that the role of a Building Society Board is typically seen as one of stewardship, running the Society not just for the benefit of current members, but also for future generations of members. The notion of stewardship demands a long-term perspective on financial stability, customer propositions and investment. Therefore, the focus on the Code on Board's promoting long-term sustainable success supports the Society's mutual ethos.

The Board and its Members

The Society is led by a Board comprising an independent non-executive Chair, five other independent non-executive Directors and three executive Directors. The Board is collectively responsible for promoting the long-term sustainable success of the Society, generating value for members and contributing to the wider society. There is a clear division of responsibilities at the head of the Society between running the Board and the executive responsibility for running the Society's business. The roles of Chair and Chief Executive are held by different people and are set out in writing. Additionally, both those roles and certain other roles in the Society, have prescribed responsibilities under the Senior Managers and Certification Regime. There is a majority of independent non-executive Directors on the Board such that no one individual or small group of individuals dominates the Board's decision-making.

The Board ensures that the necessary resources are in place for the Society to meet its objectives and measure performance against them. The Board has established a framework of prudent and effective controls, which enable risk to be assessed and managed. More information on this framework can be found within the Risk Committee Report on **page 42**.

In order for the Society to meet its responsibilities to members and stakeholders, the Board ensures effective engagement with, and encourages participation from, these parties. More information on stakeholder engagement can be found within the Corporate Governance Report on **page 19**.

The Board has a schedule of retained powers in order to maintain control over the Group's affairs whilst other matters are delegated to the Executive Team or Committees.

Board's Retained Powers

- Appointment or dismissal of any executive Director
- Approval of products outside of the Society's agreed Strategic Plan, investment rate changes that do not mirror a Bank of England rate change and changes in Society terms and conditions
- Approval of key policies
- Adoption of and amendments to the Strategic Plan and annual budgets, including any new or discontinuation of business activity
- The appointment of the external and internal auditors
- Approval of the Annual Report and Accounts
- Changes to the pension scheme
- Approval of the Society's overall risk appetite statement and risk appetite levels

Chair's Principal Responsibilities
Debra Lewis

The Chair is responsible for leading and managing the work of the Board. This is done by setting the Board's agenda and ensuring adequate time is available for discussion of agenda items, demonstrating objective judgement within a culture of openness and debate by facilitating contributions by the non-executive Directors at meetings and ensuring constructive relations between the executive and non-executive Directors. The Chair is responsible for promoting good governance and leading the development of the Society's culture. The Chair holds meetings with the non-executive Directors without the executive Directors present. The role of Chair also includes:

- Retaining overall responsibility for the leadership of the Board and ensuring its effectiveness
- Leading the annual Board evaluation, with support from the Senior Independent Director as appropriate, and acting on the results
- Setting the Board's agenda and ensuring adequate time for discussion of all agenda items
- Encouraging all Board members to engage in Board and Committee meetings by drawing on their skills, experience and knowledge
- Ensuring that Board composition and succession is regularly reviewed regarding skills and numbers
- Ensuring the Directors receive timely and relevant information
- Overseeing the assessment of fitness and propriety of those non-executive Directors who are not in scope of the Senior Managers and Certification Regime (the Senior Managers and Certification Regime documents regulatory expectations on accountability and governance in relation to individuals who hold key roles and responsibilities in relevant firms) and the related notification requirements to the PRA

Non-Executive Directors' Principal Responsibilities Trevor Barratt, Debra Lewis, Liz McKenzie, Tony Morgan, Roger Turner

Non-executive Directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. All non-executive Directors have sufficient time to meet their Board responsibilities at the Society. Their principal responsibilities include:

- Appointing and removing executive Directors
- Scrutinising and holding to account the performance of management and individual executive Directors against agreed performance objectives
- Bringing objectivity and independence of view to Board deliberations
- Constructively challenging and helping develop proposals on strategy
- Helping provide effective leadership in relation to the Society's strategy, performance and risk management
- Monitoring the continuing effectiveness of the Board, its Committees and the Executive Management Team
- Ensuring high standards of probity and corporate governance

Chief Executive Officer's Principal Responsibilities William Carroll

- Responsible for the day-to-day running of the business
- Accountable to the Board for the performance of the Society

In addition, other principal responsibilities, applicable to all executive Directors' are listed below.

Executive Directors' Principal Responsibilities Dawn Gunter, William Carroll and Iwan Jones

- Discharging their personal responsibilities under the Senior Managers and Certification Regime for the areas they are accountable for
- Creating and articulating the vision of the future
- Providing clear business and cultural leadership
- Leading the delivery of the Group's strategy
- Ensuring the Group operates ethically

The Role of the Board Committees

The Board is supported by its Committees (as set out below) which make recommendations to the Board on matters delegated to them, particularly in relation to internal control, risk management, financial reporting, governance and remuneration matters. This enables the Board to spend a greater amount of time

Corporate Governance Report (cont)

on strategic, forward looking agenda items. Through Board Effectiveness Reviews and Succession Planning, the Board and its Committees have the appropriate balance of skills, experience and knowledge to discharge their respective duties effectively. No one other than the Committee Chair and members are entitled to be present at a meeting of the Committees, but others may attend at the invitation of the Committee. The Chair of each Committee reports to the Board meeting following the Committee meeting on the matters discussed, decisions taken and makes recommendations to the Board where necessary. The minutes of Committee meetings are made available to all Directors unless it would be inappropriate to do so.

A full list of responsibilities is set out in each Committee's terms of reference, details of which can be found on our website at www.monbs.com.

The work of the Board Committees are set out in their individual reports to members on **pages 35-47**.

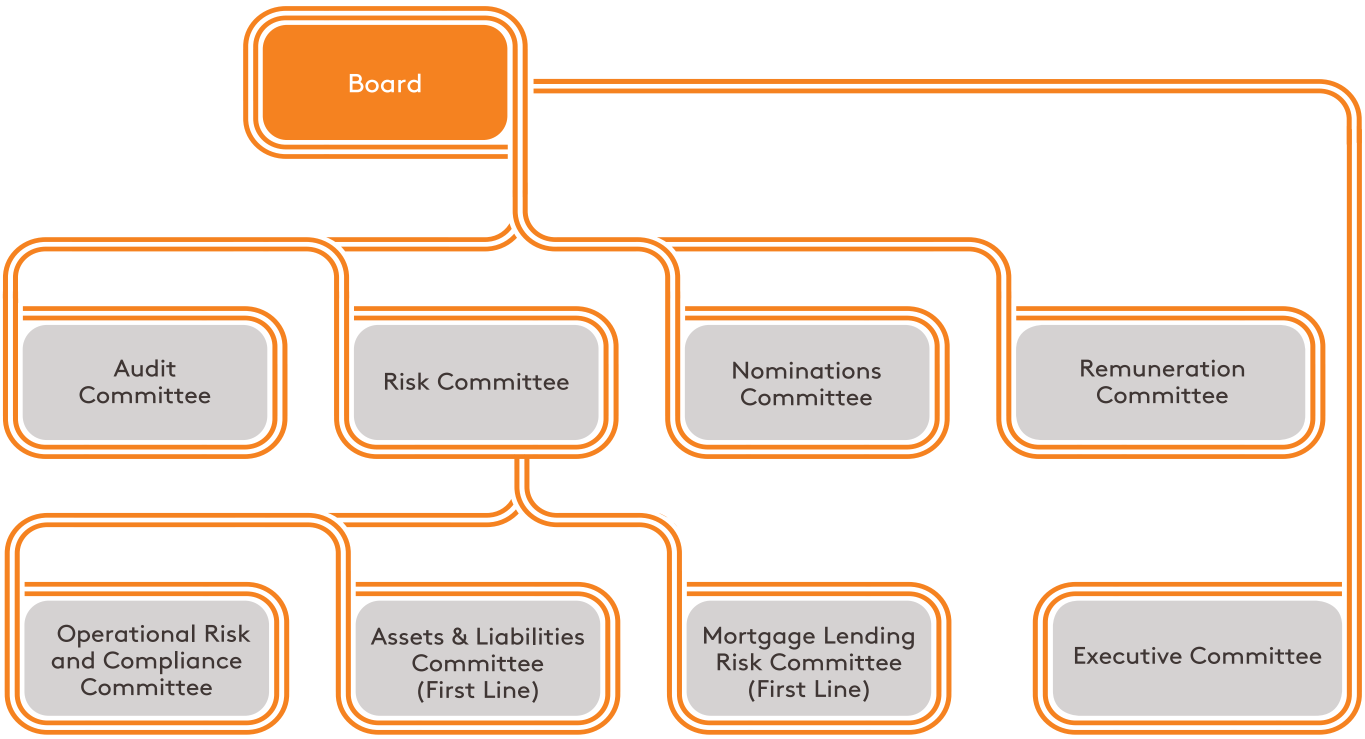
In addition to the Board Committees there are three management Committees, which report into the Risk Committee (as illustrated below), and the Executive Committee which reports to the Board.

The Executive Committee

Responsibility for the day to day management of the business and the implementation of the strategies and policies agreed by the Board has been delegated to the Chief Executive who is supported by the Executive Team. The Executive Team comprises William Carroll (Chief Executive), Dawn Gunter (Chief Operating Officer), Iwan Jones (Finance Director), David Mollison (Chief Risk Officer) and Lucy Burgess (Head of People & Culture).

The Executive Team form the Executive Committee, which is chaired by the Chief Executive, and meets on a monthly basis. The responsibilities of the Executive Committee are:

- The development and implementation of strategy, operational plans, policies, procedures and budgets
- The monitoring of operating and financial performance
- The assessment and control of risk
- The prioritisation and allocation of resources
- Monitoring competitive forces in each area of operation
- People and culture and
- Business development



A full list of responsibilities is set out in each Committee's terms of reference, details of which can be found on our website at www.monbs.com.

The Executive Committee reports to the Board, at each Board meeting, in the form of business reports from the CEO and the Executive Team. The Executive Team also meet monthly as a Strategic Review Forum to review progress against the Strategic Plan.

Engaging with Stakeholders

Section 172(1) statement

Monmouthshire Building Society is not governed by the Companies Act 2006 and section 172 on Directors' duties, however the Directors' duties under building society law are similar. As the Society has due regard to the Code it also considers the duties set out under section 172 of the Companies Act 2006 in so far as they are applicable to building societies. All references to the 'Company' have been replaced by the 'Society'.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Society for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- The likely consequences of any decision in the long-term
- The interests of colleagues
- The need to foster the Society's business relationships with suppliers, customers and others
- The impact of the Society's operations on the community and the environment
- The desirability of the Society maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Society

The Chair ensures that decision making is supported and informed by the section 172 factors when the Board is discussing proposals. Guidance on writing Board papers was provided by the Company Secretary to all those within the business who write Board and Committee papers. This guidance set out by the section 172 factors that need to be included within papers and presentations for discussion when the Board is considering proposals. The Board recognises that in considering a broad range of interests and balancing different perspectives it will not always be possible to deliver every stakeholder's preferred outcome.

The Board has identified its stakeholders and keeps these groups under regular review along with the engagement mechanisms in place for them. The Board recognises its role to promote the long-term sustainable success of the Society, generating value for members and contributing to the wider society. During its strategy session the Board considered the Society's purpose, culture and values and the link to its long-term strategy. This is set out in the Strategic Report on **page 9**.

Engaging with Stakeholders

The Board realises that the views and interests of the Society's key stakeholders will help to deliver the Strategy in line with the Society's purpose and to operate in a sustainable way. In line with regulatory responsibilities, the Board also considers carefully the impact its decisions will have on the Society's risk and control environment, and on member outcomes. Considering a broad range of stakeholders and their relative interests is an important part of the way in which the Board makes decisions. However, it is not possible for the Board to engage with every stakeholder group and where this is the case engagement takes place at an operational level with key themes reported to the Board. The Board is mindful that the pandemic has prevented some engagement in person and looks forward to resuming this when Government guidelines permit.

The Board engages with a number of the Society's stakeholders and this engagement is shown in the table on the next page.

Corporate Governance Report (cont)

Stakeholder Group	Engagement Methods
Workforce	• Monthly Executive Briefing • Employee forum • Employee survey • Branch and agency visits, meetings with individual teams and departments in Head Office • Deep dives and presentations to the Board and its Committees • Internal communications through the colleague Hub including blogs and vlogs
Members (present and future)	• Annual General Meeting • Notice of Meeting • Annual Report and Accounts • Member research panel • Social Media including the website • Meeting members on branch visits or at other events • 'Ask the CEO' question and answers • Customer surveys and Complaints Procedure • Customer newsletters and member communications • Sponsorship and competitions
Communities	• Sponsorship of local causes and events • Branch and Agency network • Community involvement and employee volunteering • Charitable Foundation and Charity Partnership • Business class - the Society's initiative with local schools • Supporting local business, students and events • Social Media and website
Intermediaries	• Intermediary portal • Mortgage Networks • Attendance at industry events • Broker forum and feedback
Suppliers	• Panel Management • Internal and External Audit Reports • Third Party Framework and Supplier Management Policy • Service level agreements • Supplier conferences and workshops
Regulatory Bodies	• Open dialogue with regular correspondence and meetings • Regulatory returns and reporting
Industry Bodies	• Attendance at seminars and events including the annual Building Societies Association (BSA) conference and UK Finance events • Responses to consultations • Industry meetings, roundtables, conferences and training sessions • Employee presentations at industry events
Financing (Money Market Brokers, Bank of England and Clearing Banks)	• Regular reporting, correspondence and communications • Treasury funding and counterparty limits • Due diligence and audits of data • Annual visits and questionnaires • Legal review • Broker/Bank relationship managers

Engagement in Action

As part of Board discussions, the Board takes into account the interests of and impact on, its stakeholders. The following gives an example of where the Board has had regard to these factors at a strategic level.

- **The likely consequences of any decision in the long-term**
  The Society's strategy is for growth in order to ensure the long-term sustainable success of the Society rather than to maximise short-term profit. The Board has deliberated and approved continued investment in the Society's infrastructure, such as enhancements to its digital capabilities, to ensure the Society remains relevant in the digital age and will be here to service future generations of members.

- **The interests of the Society's employees**
  Regular conversations were held about health and safety measures in place to protect colleagues from COVID-19, the impact of the pandemic and working arrangements on employee wellbeing and culture.

  The Board supported the move to remote working by employees as part of the COVID-19 stay at home measures and the need for colleagues to ensure appropriate social distancing in work locations. Colleagues have been able to work flexibly to promote wellbeing, diversity and inclusion. On 1st May 2021 the Society launched its Agile Working Policy recognising that the modern workplace will be a hybrid of working remotely and working in the office. This has empowered colleagues to work in a way to support their lives outside of work and ensure they can support the business and remain flexible and agile to better serve our members.

- **The need to foster the Society's business relationships with suppliers, customers and others**
  The Board has discussed the Society's relationship as a shareholder and customer of Mutual Vision Technologies (MVT), the software company that provides the Society with its core banking software in order to implement its strategy and ensure enhanced governance arrangements at MVT. The Society's Chief Executive has stood down from the Board of MVT to ensure a more commercially focused relationship.

  In response to feedback from specialist mortgage brokers the Board approved the development of residential development finance products and commercial lending. The feedback helped shape our propositions and gave valuable insight into the development of products for the Society.

- **The impact of the Society's operations on the community and the environment**
  The Society's Strategy, which was approved by the Board, is focused on being a responsible business and has been written from an Environmental, Social and Governance (ESG) perspective.

  A Climate Change Working Group has been set up with representatives from across the business. Regular updates are provided to the Risk Committee and the Board on the Society's proposed response to legislative and supervisory guidance in respect of the financial risks arising from Climate Change. The Board has considered the climate related risks and opportunities specific to our business and how these will be quantified and measured.

  The Board is keen to support a new approach to affordability for carbon neutral homes, supporting not only the climate, but making it possible for members to afford these homes. The VALUER (Valuations and Lending Underwriting Energy Reduction) project, part-funded by the Department for Business, Energy and Industrial Strategy (BEIS), is a collection of industry partners led by Monmouthshire Building Society, The Royal Institute of Chartered Surveyors (RICS), Rightmove and zero carbon homebuilder and sustainable energy service provider Sero. As part of the project, Monmouthshire Building Society will be the first mortgage lender in the UK to adapt its affordability calculation tool to more accurately reflect actual home energy bills.

  The Society has signed up to be a founding partner on a separate project led by Sero which will look at Optimised Retrofit. An Optimised Retrofit is a retrofit of an existing home, undertaking in any number of coordinated steps over any time period, that uses a combination of fabric improvements, low/zero carbon technologies, and intelligent ongoing operational controls, to take that home to its lowest achievable carbon footprint, in almost all cases likely

Corporate Governance Report (cont)

to be zero carbon at a point in the relatively near future.

The Society supports its communities and a number of local charities through its Charitable Foundation. In addition to a number of smaller donations within the region, during the year the Charitable Foundation donated £15,211. In addition, a Charity of the Year is chosen by Society colleagues in which Society colleagues participate in fundraising activities. In the current year, the chosen charity was Shelter Cymru and over £9,000 was raised for the Charity.

- **The need for the Society to maintain a reputation for high standards of business conduct**
  During the COVID-19 outbreak the Board oversaw various initiatives which ensured the Society maintained a reputation for high standards of business conduct. Some examples include:

  The Society's retention campaign to offer members flexibility in uncertain times during COVID-19 with products that offer cash back, no switching fees and no early redemption fees. For every member who chooses to switch to one of our flexible retention products, a cash donation is made to Shelter, supporting those less fortunate with no homes of their own.

  The Society continues to offer loyalty products with celebration regular saver rates at 4% and only available to existing Members. We also flexed our Terms and Conditions during the COVID-19 lockdown to continue to pay the annual bonus even where a member had missed a monthly deposit as a result of being unable to visit a branch.

- **The need to act fairly between members of the Society**
  In order to best serve the Society's members, the Board continues to review its Lending Policy to align the products the Society offers with the needs of members, including lending into retirement and offerings to vulnerable customers with the aim of making the Lending Policy clearer and improving the customer experience.

  The Board has discussed the Society's digital and retention strategy following member feedback on the old paper-based processes to deliver an improved member experience online. These initiatives allow the Society to stand out amongst competitors with our modern, customer-focused and technology-driven approach. The portals also encourage business retention by reducing customer effort and provides support to members during this unprecedented time of COVID-19 by providing an alternative channel through which to communicate with the Society.

Workforce Engagement

Understanding the View of the Workforce

The Board ensures the views and concerns of colleagues are taken into account by the Directors, particularly when they are making decisions that could affect colleagues.

Roger Turner is the Senior Independent Director and will assist the Board with member and stakeholder matters. Roger provides a sounding board for the Chair and serves as an intermediary for the other Directors and members and appraises the Chair's performance. Roger is the designated non-executive director for Board engagement with the workforce. The Senior Independent Director's role includes:

- Understand the concerns of the workforce and other stakeholders
- Articulate those views and concerns in Board meetings
- Ensure the Board, and particularly the executive Directors, take appropriate steps to evaluate the impact of proposals and developments on the workforce and consider what steps should be taken to mitigate any adverse impact
- Provide feedback to the workforce on Board plans

Letter from the Senior Independent Director on colleague engagement and wellbeing

Dear Members

When deciding what would be most likely to promote the success of the Society, the Board must consider the interests of the Society's employees. As Senior Independent Director, I am the designated non-executive director for ensuring the views and concerns of the workforce are taken into account by the Board, particularly when we are making decisions that could affect the workforce. I will also feed back to the workforce on what steps have been taken to address their concerns or to explain why particular steps have or have not been taken.

Employee engagement and wellbeing is a key focus area of the Board. The past year has been unlike any other in terms of ensuring the wellbeing of our workforce in terms of their emotional and physical health.

Throughout the pandemic, the Board has been mindful that our colleagues have experienced their own individual personal challenges, whether this was from feeling isolated as a result of living alone, being required to shield for health reasons or needing to home school their children. Colleagues have been able to adapt their working practices to help them manage their homelife and personal needs, with a small number of colleagues being furloughed where this was not possible. Although, due to the positive performance of the Society in the year, the Board has since taken the decision to repay the Government all furlough payments. Colleagues have also had to deal with professional challenges. The Society was able to mobilise a remote workforce and change the way branches engaged with members. This saw the introduction of safety measures, such as wearing PPE and social distancing, in response to government guidelines to protect the physical health of colleagues and members.

Despite these circumstances, our colleagues have maintained a focus on serving our members, ensured the delivery of strategic initiatives, whilst demonstrating resilience and agility to adapt and reprioritise plans in response to the continually changing environment.

We have received excellent feedback from members on how our colleagues have supported you, our members, during the pandemic. I would therefore like to take this opportunity to outline what steps the Board and your Society have taken to engage with and support our colleagues:

- As part of the Board's aim to engage with colleagues in a variety of ways, a colleague forum was launched last year. The forum aims to ensure open communication and the opportunity to effectively understand colleagues' views and interests. The forum meets every two months to discuss feedback and ideas on a wide range of Society activities which are fed back to the SID and the Board.
- Colleagues have been supported to work remotely and dynamically. Investment has been made in the Society's infrastructure to improve colleague working environments and the tools and resources needed to enable them to do their roles more effectively. This investment included enhanced IT for colleagues and collaboration tools to make it easier for colleagues to work together as one team.
- A COVID-19 section was set up on the colleague intranet site. This featured information on steps the Society were taking to keep colleagues and members safe. Colleagues could also ask questions and the responses were shared online.
- Keeping colleagues interacting with each other and supporting mental health has been a key emphasis this year. Throughout the year various activities were organised including a buddy initiative, lunchtime chat sessions, online quizzes, a wellbeing advent calendar and interest specific online social groups were created including a running club and a support group for parents who are home schooling.
- The Society moved learning and development online, delivering timely webinars for colleagues focusing on areas such as personal resilience and remote leadership.
- Internal seminars on personal resilience and positivity have been held to support mental health and wellbeing. Workshops have also been held on other topics such as gender diversity, as part of International Women's Day, and the Society has a programme of activity planned to support diversity and inclusion in its other facets, including LGBT and religion. The Board wants all colleagues to be able to bring their 'whole self' to work.
- The Board makes sure it regularly keeps all colleagues up to date on the strategy, performance and progress of the Society through a combination of Executive-led briefings, and digital communication, including blogs, vlogs and internal communications. The Chief Executive also engages directly with colleagues via the Society's intranet on topics of interest and receives comments and views directly back from the workforce.
- Many colleagues have been suffering higher levels of fatigue and stress as a result of the COVID-19 pandemic which has adversely impacted culture. The Board has been focused on the culture across the Society and actions are being taken to achieve a unique, dynamic working culture that serves to attract the best talent and retain existing employees

Corporate Governance Report (cont)

to create an environment which rewards achievement and fosters success. Colleague engagement has taken place across all levels of the Society to gain feedback and to support future improvements towards our aspirational culture to be 'friendly and driven, fun and hardworking, individual and one team'.

- Research has shown that the pandemic has had a major impact on mental health. To equip our people, all managers at the Society are in the process of gaining the Mental Health First Aider qualification. Participants will gain improved knowledge of mental illnesses and their interventions, knowledge of appropriate first aid strategies, and confidence in helping individuals experiencing a mental health problem.
- An Employee Assistance Programme is available to colleagues which offers a free and confidential way to resolve issues and provide personal support 24 hours a day 365 days a year.
- An Agile Working Policy was launched on 1st May 2021. The Society and the Board are focused on creating an agile working environment that encourages flexibility and diversity within the workforce, recognising the differences between each individual colleague and presenting solutions to support them.
- The Board discussed non-monetary ways that colleagues could be recognised for their hard work during the pandemic and additional holiday was granted.

I would like to add my thanks to colleagues for their hard work and dedication during the pandemic in serving the Society and supporting members through these unprecedented times.

I am pleased to report that earlier in the year the Board approved a responsible business strategy. The Society's Mutual ethos has always informed decisions, and with the Board demonstrating its commitment through a number of ESG led priorities that flow through its deliverables, the Society will be more aligned with its members, communities and colleagues than ever before.

Roger Turner

Senior Independent Director

Culture

The Board recognises that good governance is more than rules, regulations and frameworks and the people on the Board. It extends to embedding the right culture, values and ethics within the Society. The Board considers purpose, values and culture when setting strategy.

In 2019 the Board agreed the Society's purpose of 'helping members, communities and colleagues to thrive'. This purpose is supported by the Society's values and strategy. The Board has considered the aspirational culture for the Society and is focused on setting the right tone from the top. All Directors are expected to act with integrity, lead by example and promote the Society's culture.

Regular updates are provided to the Board on feedback from colleagues and the culture within the Society, as well as cultural insights such as employee turnover and any work-related absences. The Board assesses and monitors culture through these updates and regular reports from colleague surveys, executive reports, HR, Risk & Compliance, Internal and External Audit, conduct matters and quality assurance reviews that include information to assist the Board in monitoring the culture within the Society.

The pandemic has had a massive impact on people's lives and the way they live and work. The most significant change being workplace culture and the increase in remote working has changed the way people interact with each other. The pandemic has acted as a catalyst to workplace culture and the changes from working in an office to a hybrid model of working from home and the office.

The Board commissioned an independent survey on culture which was undertaken by the Banking Standards Board (BSB). Colleagues completed an online questionnaire and the BSB reported on the results which ranked the Society within its peer group. The Board has reviewed the results and engagement has taken place at all levels of the Society to understand what can be done to enhance the culture and adapt to new ways of working following the pandemic.

Workforce Policies and Practices

The Board ensures that workforce policies and practices are consistent with the Society's values and support its long-term sustainable success. The workforce is able to raise any matters of concern in confidence and anonymously. The Board routinely reviews this process and the reports arising from its operation and ensures that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action if needed. Trevor Barratt, Chair of the Risk Committee is the Society's whistleblowing champion supported by David Mollison, the Chief Risk Officer and Lucy Burgess, the Head of People and Culture. This forms part of the Society's 'Speak Up' arrangements.

Board Authority

Strategy

The Society's Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Group within an effective control framework which enables risk to be assessed and managed.

Resources

The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performance is reviewed. The Directors have access to the advice of the Company Secretary and, if necessary, are able to take independent professional advice at the Group's expense. The removal of the Company Secretary and Chief Risk Officer is a matter for the whole Board. The Society has arranged appropriate insurance cover in respect of legal actions against its Directors. All Directors have access to the Society's operations and colleagues.

Operational Resilience

The Board has evaluated the operational resilience of the Group through business continuity planning, information technology and infrastructure. The Board has been kept abreast of changes made to processes within the Society to improve resilience, and ensure the Society is compliant with regulatory requirements. The Board has had regular updates on the enhancement of the Society's IT infrastructure and information security.

Liquidity and Capital Management

In making decisions to ensure the long-term success of the Society for the benefit of its members the Board balances the needs of savings and borrowing members. The Board has extensively reviewed the Society's assessment of Capital and Liquidity requirements to ensure the ongoing financial soundness of the Society. The Board continues to monitor the availability of funding markets (retail and wholesale) to enable the Society to achieve its strategic objectives.

Control Environment

In an environment of increasing legal and regulatory requirements there has been increasing complexity and volume on the Board's agenda which is reflected in an increased focus on governance, risk and the control environment.

The Board continues to focus on strengthening the control environment through the Enterprise Risk Management Framework and being kept regularly appraised of regulatory changes, developments and emerging risk themes through regular horizon scanning activity. The Board has put in place processes for the robust assessment of emerging risks which are explained on **page 58**.

The Board receives regular reports on changes to legislation, regulation and best practice to ensure it remains up to date with developments and the Society can react to the significant volume of these changes within an ever-challenging market.

The Board's Focus during the Year

During the year additional areas of focus for the Board included:

- Member engagement and support through the pandemic and mortgage payment holidays
- The Society's people and culture
- The management of change across the business
- Commercial lending as part of the Society's Responsible Lending Policy
- Stakeholder engagement
- Managing the impact of COVID-19 on the Society's operations and strategy
- Creating a modern workplace for colleagues
- The development of digital technology to support business processes
- Green home finance working with partners in order to develop industry changing products supporting energy efficient properties

Corporate Governance Report (cont)

- Closure of the Society's defined benefit pension scheme to new accrual
- Non-executive Director recruitment
- The Funding Plan to ensure funding requirements are met to deliver the Strategy

A typical Board agenda deals with the strategic items at the start of the meeting to ensure there is sufficient time available for a debate. The Executives provide reports on their areas of the business and the Committee Chairs report on the activity of their Committee since the last meeting. Policies and Governance are dealt with towards the end of the agenda and deal with items such as annual reviews of Society policies, updates to terms of references and other matters that are generally of a more routine nature. The Board also reflect on emerging risks and opportunities.

Independence of Non-Executive Directors

The Board considers that all its non-executive Directors, including the Chair, are independent and free of any relationship which could materially interfere with the exercise of their judgement. Under the terms of the Code, factors to be taken into account when assessing independence include the length of service and whether the Director has recently been an employee of the Group.

Induction and Training

All Directors receive a comprehensive induction on joining the Board which is tailored to the individual. Marian Evans joined the Board on 24th June 2021. Marian's induction comprised four stages which included attendance at a number of Board and Committee meetings, various pre-reading and meetings with subject matter experts within the Society. Marian also met with external experts from BDO, our External Auditor, and PwC, our Internal Auditor. The main topics included:

- The operation of the Board, Regulatory supervision and the Board Effectiveness Review
- The Society's Strategic Plan, financials and management structure
- Constitutional, regulatory and governance matters
- Internal and external audit
- Operational matters including distribution, product marketing, brand and communications, and IT
- Finance including treasury, financial control and financial risk
- Remuneration workforce and culture
- Risk and compliance
- The Risk Committee and Remuneration Committee structure and remit

All Directors participate in an ongoing programme of training and professional development designed to keep their knowledge and skills up to date and ensure they have appropriate knowledge of the Society and access to its operations and colleagues.

Areas of training are identified through performance evaluations of the Board and its Committees, individual reviews conducted by the Chair with each Director and relevant requirements as they arise. Non-executive Directors provide the Chair with details of training undertaken outside the Society in the year. Non-executive Directors can request specific training that they consider to be necessary or useful and can meet with executives and managers within the business.

The Society provides the necessary resources for developing and updating the knowledge and capabilities of its Directors. This is done primarily through internal and external presentations and training. During the year training and presentations took place on several areas including:

- COVID-19 briefings and the Society's response
- IT and operational resilience
- Finance and treasury including capital hedging
- Stakeholder engagement
- Culture and employee wellbeing
- Update from the Chair of Trustees of the Defined Benefit Pension Scheme on the closure of the scheme to new accrual
- Green mortgage products for energy efficient homes
- Engagement with mortgage intermediaries
- An overview of finance software used for the recognition of interest income and fee income/costs over the expected life of a product

The training was delivered by subject matter experts within the Society and externally. Briefing notes on various matters, including corporate governance, legal and regulatory changes, and best practice are provided throughout the year. Board members are able to complete a programme of online compliance training which covers topics such as conduct risk, data protection, money laundering, cybercrime and fighting financial crime. Directors also attend external courses and conferences where relevant. Board members visit branches and departments within Head Office to familiarise themselves with the business and hear feedback from colleagues, and the AGM and other member events to provide opportunities to hear the views of members.

Individual training requirements for executive Directors are dealt with through the annual performance evaluation process. The Board supports the development and training of all colleagues within the Society.

Election and Re-election

All Directors must meet and maintain the fitness and propriety standards of the Regulator and must be approved by them in order to hold a Senior Management Function. The Code recommends that Directors stand for re-election annually and the Board agreed that for the AGM in 2021 they would move to annual re-election. Following individual Director performance evaluations, the Chair confirms that the performance of the Directors continues to be effective and they demonstrate commitment to the role.

Appraisals and Effectiveness

The Board ensures that an annual appraisal is carried out for each Director and the Nominations Committee considers each individual Director's performance and scope of experience to ensure they continue to meet the Society's stringent requirements and they are able to allocate sufficient time to the Society to discharge their responsibilities effectively. The letters of appointment for non-executive Directors set out the minimum time commitment expected for the role. The time commitment may increase during times of significant change in the Society or the market, or when new strategies and developments are under consideration. The time commitment varies depending on whether the non-executive Director also chairs a Committee in which case it can increase significantly. Prior to appointment, significant commitments are disclosed with an indication of the time involved. Additional external appointments cannot be undertaken without prior approval of the Board. No significant appointments have been entered into by any Directors during the course of the year.

The performance of the non-executive Directors is evaluated by the Chair who assesses whether the individual's performance continues to be effective and whether they demonstrate commitment to the role. The performance of the Chief Executive is evaluated by the non-executive Directors and the performance of the executive Directors is evaluated by the Chief Executive. The performance of the Chair is separately assessed by the Directors and co-ordinated by the Senior Independent Director. The Chair acts on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board. Each Director engages with the process and takes appropriate action where development needs have been identified.

The Board, supported by the Secretary, ensures they have access to policies, processes, information, time and resources they need in order to function effectively and efficiently. Through the Secretary and Chief Executive, the Chair ensures that Directors receive accurate, timely and clear information to enable them to make effective contributions to Board meetings and discharge their duties effectively. Management will provide clarification and amplification where necessary. The Secretary is responsible for advising the Board through the Chair on all governance matters.

Throughout the year both the executive and non-executive Directors keep the Board informed of key developments in the business through regular reports and updates. These are in addition to the reports and presentations that the Board and Board Committees receive as part of their formal meetings.

There is a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors. Every three-years the Board evaluation is externally facilitated. Evaluation of the Board considers the balance of skills, experience, independence and knowledge of the Society on the Board, its composition, diversity and how effectively members work together to achieve objectives, and other factors relevant to its effectiveness.

Corporate Governance Report (cont)

The Chair and Secretary act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board through an action plan. Each Director engages with the process and takes appropriate action where development needs have been identified.

Individual evaluation shows whether each Director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and Committee meetings and any other duties).

In 2021 the annual appraisals took place and it was concluded that each Director continues to make effective and valuable contributions to the Board and to demonstrate commitment to the role.

The Board conducts an external performance evaluation every three-years in line with best practice. The Board appointed PwC, the Society's Internal Auditor, to undertake the external Board effectiveness review for the year ended 30th April 2021 and will utilise its recommendations to improve performance. The next external review will be undertaken in 2024.

Internal performance reviews are undertaken on an annual basis by the Board and all Committees in the intervening years between the external review. In 2020 an internal Board effectiveness review took place, coordinated by the Company Secretary, and built on recommendations from the previous year's internal and external evaluations as well as assessing the Society's compliance with the requirements of the 2018 Code.

The 2021 PwC Board Effectiveness review concluded that the Board and its sub-committees were operating effectively. Three low rated observations were noted where enhancements could be made and a number of specific areas of good practice identified.

The review found that the Society has an appropriate and effective board structure and corporate governance framework in place. The Board has adapted, in response to the disruption of the global pandemic, to enable it to continue to fulfill its legal and regulatory obligations. Notably it has used this period of great uncertainty as an opportunity to focus on the strategic direction of the Building Society, to provide a firm base for the post-pandemic recovery. The strategic planning cycle has been flexed and there has been increased focus on the long-term goals of the Society. Furthermore, the Board has continued to focus on the Society's culture through regular interaction with collegues and stakeholders. There is clear consideration at Board level as to what the post-pandemic working environment should look like and how this will impact Society staff and the overall culture of the Society. The Board has plans to consult further with staff and implement adapted working arrangements in 2021 to build on the lessons learned from the pandemic and maintain a resilient workforce.

Board Reporting and Attendance

The full Board met thirteen times in the year with supplemental meetings being held as and when required. In so doing, the Board retains full and effective control over the Society, agreeing policy, strategy and taking decisions on all high-level issues which impact on the organisation whilst closely monitoring management activities.

In meeting the requirements of the Code, the Board receives regular reports from the Audit Committee, which met seven times in the year, overseeing the work of both internal and external auditors. The Risk Committee met six times in the year. The Risk Committee ensures that the Society maintains and develops its Enterprise Risk Management Framework and considers all key risks facing the Society. All relevant issues raised by the Nominations Committee or the Remuneration Committee are dealt with at the next Board meeting. The Risk and Audit Committees liaise closely in areas where there is some degree of overlap within the remit of the Committees.

The Directors have full access to the minutes of the Committees to ensure transparency, unless it would be inappropriate to do so, for example where an executive Director's remuneration is being discussed.

The Board has a formal schedule of matters which are reserved for its consideration. Proceedings of all the Committees are formally recorded and the key points arising from each meeting are subsequently considered by the Society's full Board. Additionally, a number of Board Committees have been established as detailed on **page 35**. Each Director allocates sufficient time to their role in order to discharge their duties effectively. They attend Board and Board Committee meetings, ensuring they are well prepared for each meeting and have a good understanding of the business. They also complete ongoing training and meet with executives and other colleagues within the Society, regulators and others as required. The Chair has no other significant commitments and her leadership of the Board has priority over any other commitments she has. There have been no changes to her other commitments during the year.

Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Society. The Company Secretary maintains a conflicts register, which is a record of actual and potential conflicts. Where a conflict may exist, or a matter concerns a Director individually that Director will absent themselves from the discussions and will not be part of the decision.

The Board meets regularly and holds an annual strategy meeting to review the Society's strategic options in the context of the economic, regulatory and competitive environment.

Corporate Governance Report (cont)

Board Committee Membership During the Year

	Risk	Audit	Remuneration	Nomination
Debra Lewis (Chair)			Member	Chair
Tony Morgan		Chair	Member	
Trevor Barratt	Chair	Member		
Roger Turner	Member	Member		Member
Liz McKenzie	Member		Chair	Member
William Carroll				Member

All Directors are expected to attend Board meetings. In the event of circumstances that prevent a Director from attending a meeting the Chair makes sure that any views are passed on and are heard in the meeting. Attendance at Board and Committee meetings for the year to 30 April 2021 has been recorded as follows:

	Board	Risk	Audit	Remuneration	Nomination
Trevor Barratt	13(13)	6(6)	7(7)		
William Carroll	12(13)				4(4)
Dawn Gunter	13(13)				
Iwan Jones	13(13)				
Debra Lewis	13(13)			4(4)	4(4)
Liz McKenzie	13(13)	6(6)		6(6)	3(3)
Tony Morgan	13(13)		7(7)	6(6)	
Roger Turner	13(13)	6(6)	2(2)	2(2)	4(4)
Nina Hingorani-Crain	5(5)		5(5)		1(1)

( ) Number of meetings eligible to attend

William Carroll was unable to attend one Board meeting called at short notice due to a family bereavement.
Liz McKenzie took over from Roger Turner as Chair of the Remuneration Committee during the year and Debra Lewis joined the Committee as a member.
Nina Hingorani-Crain stepped down from the Board in November 2020 at which point Liz McKenzie joined the Nominations Committee, Debbie Lewis joined the Remuneration Committee and Roger Turner joined the Audit Committee.

Risk Management and Internal Control Systems

The Board is responsible for setting the overall risk strategy for the Society, and for the overall design and implementation of the Enterprise Risk Management Framework, with the support of the Risk Committee. The Board ensures that the Society operates within its constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

The system of internal control is designed to enable the Society to achieve its long-term strategic objectives within a managed risk appetite, not to eliminate risk entirely. The "Three Lines" model required by the Society's Enterprise Risk Management Framework and embedded within the Society's operations provides assurance that these processes are appropriate and applied effectively. The Society continues to invest in improving its risk management capabilities and the robustness of its Enterprise Risk Management Framework. The Board monitors the effectiveness of internal control systems and risk management processes, taking account of:

- The findings of internal and external auditors
- The findings of its risk management function
- Other reports on risk management internal controls and compliance presented to the Risk Committee

During the year there were no material breaches of control or regulatory requirements and the Society maintained an adequate system of internal control. Where weaknesses in controls are identified, the Board monitors progress to remedy the weakness and mitigate any further issues arising, helping to ensure the Society avoids any adverse outcomes for our members.

The Board is satisfied that appropriate action is being taken in response to any matters identified.

Communication with Members and the Annual General Meeting

A Member newsletter is produced monthly and distributed via email to ensure that Members are kept informed regarding products, services and developments at the Society, with reaction and feedback encouraged. Communication with Members is also conducted via our website and social media channels including Twitter, Facebook and LinkedIn. The Society welcomes approaches from high calibre candidates from its membership to put themselves forward for appointment to the Board.

The Society encourages all eligible Members to participate in the Annual General Meeting, the 2021 AGM will have some restrictions in place in light of the COVID-19 outbreak. The Society will follow all government guidance and ensure that members are able to have their say, even if unable to attend in person. Members are advised to check the Society's website for the latest updates to the AGM.

Government guidelines permitting, Board members are present at the AGM and are therefore available to meet with Members, discuss issues and answer questions. The Chair and Chief Executive give presentations on the previous year's performance and the strategic plans for the Society. All members have the opportunity to ask questions at the AGM on the business of the meeting or can pre-register their question by email in advance of the meeting.

The Board welcomes questions in advance of the meeting and encourages all members to exercise their right to vote. This year, a contribution of 20p will also be made to the Monmouthshire Building Society Charity Partner "Shelter Cymru" for every ballot paper returned or completed online.

Audit Committee

The purpose of the Committee is to consider all audit related matters. This includes reviewing the Society's financial reporting arrangements and the effectiveness of its internal controls and its risk management framework. The Committee is also responsible for the oversight of both the internal and external audit processes. Through the Committee, the Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of the internal and external audit functions and satisfy itself on the integrity of the financial statements and other disclosures in the Annual Report and Accounts. The Committee met seven times during the financial year. The Committee reports to the Board on its activities and makes recommendations to the Board in relation to matters included in its Terms of Reference. The key responsibilities of the Committee are set out below together with examples of how it discharges its duties.

Membership

Committee Chair:

A D Morgan

Committee Members:

T Barratt, R Turner

Nina Hingorani-Crain resigned from the Committee on 12th November 2020 and Roger Turner joined the Committee on that date.

Committee Composition, Skills and Experience

The Committee acts independently of the Executive to ensure that the interests of members are properly protected in relation to financial reporting and internal control. All of the members of the Committee are independent non-executive Directors. The Chair of the Committee is a Chartered Accountant with significant accounting and audit experience. The Committee as a whole has competence relevant to the financial services sector.

The Committee has reviewed the collective skills of members and concluded that the balance of skills, knowledge and experience of the Committee is appropriate.

Audit Committee Key Responsibilities	
Financial Reporting	• Monitoring the integrity of the Society's financial statements and reviewing critical accounting policies, judgements and estimates. • Reviewing the appropriateness of the going concern basis for preparing the accounts • Providing advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to understand the Society's position and prospects, including performance, business model and strategy
External Audit	• Reviewing the continued objectivity and independence of external audit, including the level and appropriateness of non-audit services • Considering the appointment, removal, performance, remuneration and Terms of Engagement of the external audit firm • Considering the planning, scope and findings of the annual external audit, the receipt of, and responses to, the auditor's management letter and reviewing the degree of liaison with internal audit • Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements
Internal Controls and Risk Management	• Reviewing the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by internal and external auditors • Reviewing the statements to be included in the Annual Report and Accounts concerning internal controls and risk management
Internal Audit	• Considering and approving the strategic and annual plans of work • Considering management responses to recommendations • Monitoring and reviewing the effectiveness of internal audit • Considering the appointment, removal, performance and remuneration of the internal audit firm

Financial Reporting

The Committee considered the following significant judgments and estimates, in light of the reports received from external auditors and discussions with external auditors and management. More detail on the principal judgements and accounting estimates is set out in Note 1 to the accounts:

Allowance for Impairment Losses on Loans and Receivables

Determining the appropriateness of impairment losses involves judgement and requires management to make a number of assumptions around default rates, the potential impact of forced sale discounts on asset securities and other factors. The loan loss impairment provisions recorded by the Society as at 30th April 2021 were £1.5m (2020 £1m).

The Committee considered and challenged the provisioning methodology applied by management, including the outputs from loan loss models, utilising historic and other data to support the impairment provisions.

The estimated loan loss provisions in the current year have had to take into account the potential impacts of the COVID-19 pandemic. This is because under the relevant accounting standard (FRS 102), the COVID-19 pandemic is considered to provide observable data of adverse economic conditions and therefore objective evidence that loans could be impaired. Management has, therefore made a judgmental provision for additional COVID-19 loan loss impairments, taking into account overall payment deferral requests that have been made during the pandemic and stressing the standard loan loss models for potentially higher forced sales discounts and the risk that customer propensity to default may increase.

The Society has very limited data to determine the additional loan loss provisions that should be made for COVID-19 and the full effects of the pandemic will only become clearer when Government job support schemes come to an end and there is more certainty about how the economy will recover and whether certain sectors will be permanently damaged.

As a result, the provisions made may prove to be over or under estimated depending on resultant impacts on employment rates, default rates and possible forced sales discounts as compared to estimates made by management.

Effective Interest Rate

Interest income under FRS 102 is required to be recognised on an effective interest rate basis, which requires the inclusion of all directly attributable cashflows relating to mortgage products to be recognised over the product's behavioural life.

To implement effective interest rate accounting, management is required to make significant judgements and estimates, particularly around behavioural lives and potential inclusion of interest reversions to Standard Variable Rate and early repayment charges. The EIR asset recorded by the Society as at 30th April 2021 is £2.4m (2020 £2.9m).

The Committee challenged the key judgement made by management concerning the behavioural life estimates of current mortgage products.

The Committee was satisfied that the estimates were reflective of the Society's historic mortgage book behaviour.

Retirement Benefit Obligations

The Society makes significant judgements principally in calculating the present value of the retirement benefit obligations. The major assumptions are in respect of mortality, price inflation, discount rates and pension increases. The pension scheme liability recorded at 30th April 2021 was £3.9m (2020 £4.3m).

The Committee considered the assumptions used by management in relation to benchmark information and concluded that assumptions used to calculate the pension liability were reasonable and our advisers competent to perform the actuarial calculations concerned.

Impairment of Fixed Assets

Management considered whether the carrying value of the Society's Head Office building (£3.7m) was impaired. This involved judgements about the value in use of that building, in particular around cash generating units, forecast future cashflows and the appropriate discount rate to be applied to those cashflows in order to determine recoverable amounts.

The Committee is satisfied that the carrying value of the Head Office building is appropriate based on the judgements made.

Going Concern/Viability Statement

The Committee considered papers presented by management to support preparation of the accounts on a going concern basis and to support the Viability Statement in the Annual Report and Accounts. These papers were based on the recently approved 5-year strategy of the Society and contained various severe but plausible stressed scenarios that might impact profitability, liquidity and capital.

The Committee is satisfied that it is appropriate to prepare the accounts on a going concern basis and the Viability Statement in the Annual Report and Accounts is also appropriate.

Audit Committee (cont)

Accounting Policies

The Committee examined the Society's accounting policies to ensure they are appropriate and applied consistently. They also confirmed that the policies are in line with applicable Accounting Standards. The Committee considered whether the 2021 Annual Report when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for members to assess the Society's performance, business model and strategy. The Committee is satisfied that the 2021 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. In (24th June 2021) the Committee recommended the approval of the Annual Report and Accounts, for the year ended 30th April 2021, to the Board.

Internal Audit

Internal Audit is outsourced to PwC. During the year, the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approved the audit plan and budget, and confirmed that appropriate resources were in place to execute the plan effectively.

In the year ended 30th April 2021, Internal Audit carried out a significant number of audits of varying size and complexity. The findings from each individual review are presented to the Audit Committee including management responses. The Audit Committee considers the adequacy of management responses and the implications of significant findings on the effectiveness of the overall internal control system and the risk management framework.

During the year internal audit reports were received on a wide range of subjects, for example:

- Mortgages Conduct of Business (MCOB 11) and affordability model
- COVID-19 Rapid Review
- Board Effectiveness Review (carried out by a team independent from our core Internal Audit team)
- Customer Journey (Mortgage Lending and Underwriting)
- Embedding Compliance
- Liquidity Coverage Ratio (LCR) Assumptions
- Internal Capital Adequacy Assessment (ICAAP)
- Regulatory Return (PRA110)
- Treasury Operations
- Information Security/Cyber Security

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk Management Report on **pages 51-58**. The Committee was satisfied that internal controls over year-end financial reporting were appropriately designed and operating effectively.

External Audit

The Audit Committee is responsible for assessing the effectiveness of the annual audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment of the external auditor. Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor.

The current external auditor is BDO who were appointed in 2020 following a competitive tender.

The Society has a policy for the use of external auditors for non-audit work. The Society would not consider the appointment of the external auditor for the provision of other services that might impair independence.

No non-audit services have been provided during the year by BDO.

Assessment of Effectiveness

In July 2020, following the approval of the prior year accounts, the Committee conducted an internal review of its own effectiveness (which was facilitated by the Company Secretary). This process involved a collective review by members of the Committee of its own procedures; resources available to the Committee and the means by which the Committee performs its role. The Committee concluded that it continued to operate effectively during the year.

In May 2021, following an External Board Effectiveness review, PwC concluded that the Board and its sub-committees were operating effectively.

Nominations Committee

The Committee is responsible for leading the process for appointments, ensuring plans are in place for orderly succession to both the Board and senior management positions, and oversees the development of a diverse pipeline for succession. The Committee adopts a continuous and proactive process of planning and assessment, taking into account the Society's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Society. A majority of members of the Committee are independent non-executive Directors. The Chair of the Board does not chair the Committee when it is dealing with the appointment of her successor. The Committee meets as often as is necessary to fulfil its responsibilities. The Committee met four times in the year.

Membership

Committee Chair:

D Lewis

Committee Members:

W J Carroll, L McKenzie and R Turner

Liz McKenzie joined the Committee on 8th December 2020. Nina Hingorani-Crain resigned from the Committee on 12th November 2020.

Committee Composition, Skills and Experience

The Committee's Chair, Debra Lewis, has considerable experience in financial services and is well placed to lead the Committee. Other members of the Committee include Liz McKenzie and Roger Turner, independent non-executive Directors, and the Chief Executive. Roger is also the Society's Senior Independent Director. The membership provides a wide range of background experience and a balanced view on the best Board composition.

Nominations Committee Key Responsibilities	
Board Composition	• Ensuring that the Board and its Committees have the capabilities required to be effective and oversee the Society. This will include an appropriate range and balance of skills, experience, independence, knowledge and behaviours. • Considering the length of service of the Board as a whole and that the membership is regularly refreshed. • Identification and recommendation of candidates for Board approval. • Reviewing the membership and Chairing of Committees to ensure that Committee membership is progressively refreshed, and that undue reliance is not placed on particular individuals. • Reviewing the Senior Managers and Certification Regime Responsibilities Map.
Succession Planning	• Considering succession planning for members of the Board and senior management in the course of its work, taking into account the challenges and opportunities facing the Society, its leadership needs and what skills and expertise are therefore needed on the Board in the future. The Board, through the Committee, satisfies itself there are plans in place for the orderly succession of appointments to the Board and senior management to maintain an appropriate balance of skills and experience within the Society and on the Board. • Reviewing the leadership needs of the Society, both executive and non-executive, with a view to ensuring the continued ability of the Society to perform effectively in the marketplace. • Focusing on the oversight of a diverse pipeline for succession.

Appointment of Directors

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Our policy is to ensure that there is broad experience and diversity on the Board. When making appointments to the Board, the Nominations Committee will evaluate the skills, experience and knowledge on the Board, the future challenges affecting the business, and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. It will then agree the process to be undertaken to identify, select and interview suitable candidates. A proper assessment of values and expected behaviours is built into the recruitment process. All appointments are subject to an extensive referencing process and certain roles require advance regulatory approval. No new Directors were appointed during the financial year.

New Non-Executive Director

The Committee held additional meetings during the year to discuss the recruitment of a non-executive Director. Following a formal, rigorous and transparent selection process, Marian Evans was chosen. The role was advertised online via a number of sites. During the recruitment process the Society undertook an assessment of whether the candidates had the personal characteristics and possessed the level of competence, knowledge and experience required to perform the role effectively. A shortlisting session then took place and in February. Eight shortlisted candidates were invited to a first interview, via video conference due to COVID-19 restrictions, with the interview panel. The panel comprised the Chair, Senior Independent Director, Chair of Remuneration Committee, CEO and Head of People and Culture.

Each candidate was scored after the interview and a discussion of the candidate's performance was held after completion of all interviews. The panel decided the two highest scoring candidates would be put forward for a second interview with the rest of the Board in March.

Following these interviews, the Board met to discuss the candidates.

Marian was selected for the role following her demonstration of a clear understanding of the sector, mutuality and the Society, her Welsh affiliation, extensive commercial background and breadth of experience. The Nominations Committee recommended that Marian be offered the role of non-executive Director and appointed to the Board with effect from 24th June 2021, following completion of a comprehensive induction programme.

Marian's induction comprised four stages which included attendance at a number of Board and committee meetings, various pre-reading and meetings with subject matter experts. The main topics included:

- The operation of the Board
- The Society's strategy and structure
- Constitutional, regulatory and governance matters
- Internal and External Audit
- Operational matters including distribution, marketing and IT
- Finance including Treasury and Financial Control
- Culture, Remuneration and HR matters
- Risk and Compliance
- The Risk and Remuneration Committees structure and remit

Board Composition

The Committee is responsible for keeping the skills, experience and knowledge of the Board and its Committees under review. The Committee uses a skills matrix to identify competencies, skills and experience within the Board which informs new appointments and determines a timeline for proposed appointments to the Board. The non-executives undertake a self-evaluation annually against these skills so that any gaps in skills and knowledge on the Board can be identified and action taken to address the skills gap through additional training or the recruitment of a non-executive with expertise in that particular area. The Committee recognises that there are some areas of expertise that the Board would not generally deal with such as a very specialist area or constantly evolving discipline. In these cases, external advice is sought from specialists in that particular area when required.

Consideration is given to the length of service of the Board as a whole and membership is regularly refreshed. During the year the Committee conducted a rigorous review of Debra Lewis' independence as she had served on the Board for six years. Debra Lewis did not attend this part of the meeting. Following consideration of the factors which may impair independence, the Committee agreed that Debra Lewis continued to demonstrate independent character and judgement and was free from relationships or circumstances which may affect, or could appear to affect, her judgement.

Diversity

At Monmouthshire Building Society we want to create an environment where our members, the communities we work in, our partners and our colleagues can be themselves. The Society believes in creating a culture where everyone is treated equally and with the same attention, courtesy and respect.

Nominations Committee (cont)

The Board is committed to having a diverse membership, made up of individuals with different skills, knowledge, experience and values to ensure effective decision making and robust challenge. The Board believes that different perspectives and ideas that diversity of thought bring are essential to reduce the risk of groupthink and improve governance.

Appointments to the Board are based on merit and objective criteria, taking account of the specific skills and experience, independence, and knowledge needed to ensure a well-rounded Board composition that can enhance business performance. The Committee will consider candidates from a diverse range with regard to gender, social and ethnic backgrounds. During the year the Committee approved a Board Diversity Policy.

The Board is supportive of the recruitment, development and retention of talented women at all levels of the Society. The Nominations Committee is committed to ensuring women are represented at all levels in the Society and this is reflected in the current number of women on the Board, in the Executive and within management. The Board of the Society is comprised of 44 percent women, the Executive team ratio is 40 percent women and the number of women in management is 56 percent.

The Committee has previously debated setting targets for gender diversity. The Committee agreed that they were committed to embracing diversity and promoting equality of opportunity in all its forms and not just with respect to gender equality and therefore targets are not deemed appropriate. They agreed that appointments should continue to be made on merit and the skills and experience the individual can bring to the Society.

Succession Planning

The role of the Committee also includes succession planning for senior management (as well as Board positions) and the need to develop a diverse pipeline for succession. During the year the Committee considered succession plans for the Board and senior management. Like appointments, succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

A key focus of the Committee during the year has been to continue the enhancements made to the succession plans for the non-executive Directors and executive team in the prior year.

The Society's succession plans are documented and consider the following three-time horizons:

- Contingency planning – for sudden and unforeseen departures
- Medium-term planning – the orderly replacement of current Board members and senior executives (e.g. retirement)
- Long-term planning – the relationship between the delivery strategy and objectives to acquire the skills needed on the Board now and in the future

Other Activities

The Committee is responsible for reviewing the Action Plan resulting from the recommendations from the annual evaluation of the performance of the Board and tracking progress made against this.

The Committee keeps under review the role profiles and job descriptions for the non-executive and executive Directors and the responsibilities map setting out individual responsibilities for those who hold senior management functional responsibility under the Senior Manager and Certification Regime.

The Committee annually reviews the Conflicts Register to ensure there are no potential or actual conflicts that could affect a Director's ability to act in the best interests of the Society.

Assessment of Effectiveness

In 2021 an external review of effectiveness was undertaken by PwC which concluded the Committee was operating effectively.

Risk Committee

The purpose of the Committee is to monitor the Society's compliance with the Board's approved risk appetite, the maturity of the Enterprise Risk Management Framework (ERMF) and embedding of a sound risk culture. Through the Committee the Board has established procedures to manage risk, oversee the internal control framework and determine the nature and extent of the primary risks the Society is willing to take in order to achieve its long-term strategic objectives. The key responsibilities of the Committee are set out in the table below. Examples of how it discharged its responsibilities follow. Meetings are held not less than four times per year. Six meetings of the Committee were held in 2020/21 to consider the increasing volume of work for the Committee and the additional time allocated to risk matters by the Board.

Membership

Committee Chair:

T Barratt

Committee Members:

R Turner and L McKenzie

Committee Composition, Skills and Experience

The Chair of the Committee, Trevor Barratt, has extensive experience and a strong understanding of risk management. Trevor is supported on the Committee by members who have a great deal of experience of the financial services sector. They bring a detailed level of scrutiny to the Society's ERMF. Roger Turner brings with him extensive Treasury risk management expertise while Liz McKenzie contributes broad HR, operations and change management experience. Liz also chairs the Remuneration Committee which provides linkage between the remits of the Committees and the consideration of risk and reward. Trevor also serves on the Audit Committee, maintaining a close working relationship between Audit and Risk.

The Committee is comprised of independent non-executive Directors and is attended by the Chief Risk Officer, Chief Compliance Officer, Enterprise Risk Manager, Executive Directors and other members of management as required.

Risk Committee Key Responsibilities	
Setting Risk Appetite	• Review and approve the Society's Risk Appetite Statements, taking account of the current and future macroeconomic, financial and regulatory environment against the Society's strategic objectives. • Review and recommend to the Board the Risk Appetite Measures to be used to monitor the Society's risk management performance.
Monitoring Business Operation	• Monitor emerging prudential risks, conduct risks and areas of potential concern, in particular those matters identified or highlighted by the regulatory authorities, and satisfy itself that appropriate reviews are undertaken to identify and manage any impact on the Society and its Members in a timely manner. • Review and challenge the internal control environment. • Monitor the Society's current risk exposures, including performance and compliance against high level risk appetite limits and tolerances. • Receive presentations from colleagues across the business, which provide subject matter input into areas of focus, giving assurance over the ongoing operation of controls.
Risk Reporting	• Review the quarterly reports provided by the Chief Risk Officer on the activities of the Risk Department and its assessment of risk within the organisation. • Review the quarterly reports provided by the Chief Compliance Officer. • Review Strategic Risk reports from the Chief Executive. • Review the quarterly risk reports provided by management level risk Committees. • Review periodic risk 'deep dives' into specific areas requiring additional risk Committee focus
Risk Management	• Review and approve the Society's ERMF. • Review the implementation of the ERMF ensuring all material risks are managed with adequate resource and a satisfactory internal control environment. • Ensure that the Society's Risk Management Structure is adequately resourced and effective across First and Second Lines. Ensure the Second Line has appropriate access to information to enable it to perform its oversight function. • Ensure that the Society has identified all material emerging risks and that adequate strategies are in place to mitigate or monitor such risks as they evolve.

Risk Committee (cont)

Key Matters Considered in the Year

During the year the Committee has reviewed the Compliance Framework, Responsible Lending Policy, Recovery Plan, Resolution Pack, Operational Resilience Framework, Treasury Policy, Data Protection Policy, IT Security Policy, ICAAP, ILAAP, IT Security and Change Management Framework.

Enhancements to forward looking credit risk information

The Committee has reviewed and discussed plans for the enhancement of forward-looking credit risk information.

Climate Change Risk

Discussions have been held by the Committee on legislative and supervisory guidance in respect of the financial and operational risks arising from climate change. This included the recommendations made by the Financial Stability Board's Task Force for disclosing climate change risk plus the impact of the recommendations on the Society and how the Society will address these. A project plan and adherence to that plan has been put in place within the Society to implement climate change.

Organisational Culture and Risk Culture

The Committee considered the elements of an effective risk culture and provided feedback on the Risk Culture Indicators Model and the identification, assessment, monitoring and reporting over risk culture. It is recognised risk culture is an important subset of the overall Culture at the Society.

Commercial Lending Policy

Discussions and a review were held on a new Commercial Lending Policy to ensure commercial lending activity was within risk appetite and supports the delivery of the Strategy.

Green Mortgages

Briefings took place on what the Society had done to assess the positive affordability impacts that energy efficiencies yielded by better rated homes can have for our customers and members and its collaboration with RICS, Rightmove and Sero to launch a pilot for green mortgage products in recognition.

Oversight of IT and Cyber Risk

Oversight of IT and Cyber matters are undertaken at Risk Committee with dedicated focus and deep dives in this area. Over the course of the year continued investment has led to positive progress and significant improvement to IT and Cyber resilience within the Society. The Society was able to switch many colleagues to remote working during the pandemic in a safe and secure manner. IT resilience was further enhanced through the provision of facilities for colleagues to work remotely and increased use of the Cloud. The Committee continues to provide oversight and has integrated reporting of IT and Cyber matters into the Committee's standard schedule.

The risk posed by cyber-attacks has increased, particularly as a result of COVID-19, and financial institutions remain a primary target of increasingly sophisticated cyber-crime groups. The Committee reviewed the Society's IT Security policies and processes to combat cyber-crime and received reports considering their effectiveness including reviewing the effectiveness of testing.

Coronavirus response

To ensure an effective and sustainable response to the unprecedented events during the COVID-19 pandemic, the Risk Committee Chair requested with agreement from the Board that our internal auditors (PwC) undertake an inflight audit review to ensure the appropriateness of the Society's response, with prompt application of learnings whilst still managing the crisis. COVID-19 lessons learned exercises have been undertaken and learnings built into working practices.

Review of Internal Controls

The Committee is responsible for ensuring that an effective internal control environment continues to operate within the Society, recognising its importance as a critical component of the ERMF. In assessing whether the control environment is effective, the Committee considers a variety of information:

- The results of internal compliance reviews.
- The results of the annual Controls Assurance Testing exercise undertaken by the First Line of defence and overseen by the Risk and Compliance Department.
- Details of material risk events and actions taken to address the control failure.
- Information from the Audit Committee relating to the results of Internal and External Audit activity.

Taken as a whole, the information reviewed by the Committee in 2020/21 provided assurance that the internal control environment was operating effectively and that no material breaches of internal control had occurred. Where weaknesses in internal control have been identified, the Committee is satisfied that adequate action plans are in place to address those issues.

Enterprise Risk Management Framework

The Committee continued to oversee the enhancements of the ERMF and ensure it continues to be fit for purpose and effective.

Risk Appetite

The Committee reviewed the Board Risk Appetite Statements setting out the level of risk the Board wishes to accept in pursuit of strategy in advance of the formal annual Risk Appetite review. As a result of the COVID-19 crisis, the annual review of Risk Appetite, undertaken in conjunction with the Society's strategy refresh, was delayed. The exercise was completed in April following approval of the Society's new five-year business strategy.

Delivery of the business strategy within risk appetite is managed through a comprehensive ERMF. Further details on the Risk Framework can be found in the Risk Management Report on **pages 51-58**.

Current and forecast performance against each of the Society's Risk Appetite Measures was considered by the Committee at each meeting.

Emerging Risks

The Committee received regular updates and provided challenge on the status of emerging risks. Further details of the mitigating actions taken by management in respect of strategic risks and on the emerging risks considered by the Committee can be found in the Risk Management Report.

Conduct Risk and Compliance

The Committee received regular updates on regulatory developments and conduct risk and assessed the impact of those developments on the Society.

Stress Testing and Capital

The Committee reviewed the results of the application of stress test scenarios and recommended to the Board that the Society's 2020/21 ICAAP, ILAAP and Stress Testing Policy be approved. The stress tests ensure the Society's financial position can withstand the impact of severe economic stress.

Operational Risks

The Committee monitors risks inherent within the Society's operations and the degree to which the Society has mitigated these risks in accordance with the Society's risk appetite. This includes areas such as the following:

- Financial Crime

The Society continues to invest to ensure its framework for the management of Financial Crime to reduce the risks of money laundering, terrorist financing, sanctions and anti-bribery and corruption remains fit for purpose. The Committee reviewed the Fighting Financial Crime Policy and receives reports from the Money Laundering Reporting Officer and the Deputy Money Laundering Officer on a quarterly basis.

- Operational Resilience

The failure of the Society's and its suppliers' technology infrastructures are a risk driver for the Society. The increased use of technology and growing demand means that any failure would have an increasing impact on our business and our members. Failure to adequately manage operational resilience may result in disruption to our important business services which could in turn result in customer detriment or impact upon the safety and soundness of the Society. The Committee has oversight of operational resilience activities of the Society such as the Business Continuity Plan and receives feedback on resilience tests such as the ability to run the Society's systems from the Disaster Recovery Centre. A continued transition to cloud-based technology, alongside remote working capabilities, has increased the Society's operational resilience, lessening our reliance on physical locations from which to conduct our operations.

Risk Management

The Committee is supported by the Risk & Compliance ("Second Line") function which provides independent challenge and support to the Society over the full risk spectrum. Opinions from the Chief Risk Officer were sought on important risk matters throughout the year.

Quarterly reports were received from the Chief Risk Officer providing the Second Line view over how effectively each of the Society's eight primary risk categories were being managed. Quarterly reports were received from the Chief Compliance Officer over conduct and regulatory matters.

The Committee recognises it may require additional support to supplement the activities within the Second Line. For example, risk and compliance consultancy support was secured to provide subject matter expertise on oversight of key strategic initiatives.

An overview of the Society's approach to risk management can be found in the Risk Management Report.

Assessment of Effectiveness

The Committee conducts an annual review of its own effectiveness and recommends any changes it considers necessary to the Board for approval. More information can be found on **page 30** (Board effectiveness review) and the Committee's Terms of Reference can be found at www.monbs.com.

An external review was undertaken by PwC during 2021. PwC considered that the composition of the Committee was appropriate and they were satisfied that the functioning of the Risk Committee was effective, and that meetings effectively addressed key issues which were then fed into discussion of risk at Board meetings. During the past two years an internal review of effectiveness was undertaken, led by the Company Secretary, which concluded the Committee was operating effectively. Following these reviews, an action plan containing recommendations was produced to further enhance the Committee's effectiveness.

Remuneration Committee

The Committee determines levels of remuneration in respect of the Society's Executive and colleagues. Examples of how it discharged its responsibilities follow. Meetings are held as often as is necessary for the Committee to fulfil its responsibilities. The Committee had six meetings during the year.

Membership

Committee Chair:

R D Turner (until 21st June 2020) L McKenzie (from 22nd June 2020)

Committee Members:

A D Morgan and D R Lewis

Committee Composition, Skills and Experience

The Committee's Chair, Liz McKenzie, has considerable experience in Remuneration and HR matters and as a non-executive Director. The Committee is comprised of non-executive Directors who provide a balanced and independent view on remuneration matters. Debbie Lewis joined the Committee in 2020, replacing Roger Turner.

Remuneration Committee Key Responsibilities	
Remuneration	• Determining remuneration for the Chair, all executive Directors and other members of the executive including pension rights and any compensation payments. The remuneration of non-executive Directors is determined by the Chair and executive Directors. • Determining the remuneration framework for all employees of the Society and taking this into account when setting executive remuneration.
Remuneration Reporting	• Reporting to members annually in the Annual Report & Accounts and the Report on Directors' Remuneration in the Summary Financial Statement. The report will be presented and be subject to an advisory vote at the Annual General Meeting.
Remuneration Policy	• Reviewing the Remuneration Policy annually.

Key Matters Considered in the Year

Executive and Directors' Remuneration

The Committee reviews the remuneration for the executives and certain non-executive Director positions such as the Chair. Levels of remuneration reflect the time commitment and responsibilities of the role. Remuneration for all non-executive Directors does not include any performance-related elements. The Committee exercises independent judgement and discretion when determining and authorising remuneration outcomes, taking account of Society and individual performance, and wider circumstances.

The Committee will have regard to workforce remuneration and related policies and the alignment of incentives and rewards with culture. No Director is involved in deciding their own remuneration outcome.

Remuneration Policy

The Committee reviewed and approved the Remuneration Policy in the year. Our Remuneration Policy aims to align executive remuneration with the delivery of the Board's strategy of achieving long-term sustainable mortgage growth, as outlined in the Strategic Report. When considering the remuneration policies and practices, the Committee seeks to ensure that they support our strategy and promote the long-term success of the business and that they are aligned to the successful delivery of the strategy.

Colleague Recognition

Due to the exceptionally challenging year as a result of the COVID-19 pandemic, the Committee has held extensive discussions on how to reward colleagues for their hard work and dedication over the year. The Committee is deeply appreciative of how colleagues have contributed during this time which has enabled the Society to support members and the communities we serve, as well as ensuring the Society's financial resilience during these uncertain times. Many of our colleagues were on the front line supporting members, working incredibly hard to ensure the Society remained open for business and was able to support members through the pandemic. Despite the challenging macroeconomic conditions the Society has ended the year in profit.

The Committee considered ways to recognise and thank colleagues for adapting their working approaches, showing flexibility and resilience during the pandemic and the resulting difficult circumstances. This has included taking into account the Society's financial and non-financial performance as well as proposals for financial and non-financial means of recognition for colleagues, such as additional days holidays.

The Committee takes into account wider stakeholder groups as part of its decision making. At the start of the pandemic the impact on the wider economy and the Society was uncertain and the Society took the decision to furlough a number of colleagues who were unable to work from home or in a branch due to social distancing requirements. Due to the Society's return to profitability this money has been repaid to the Government. The Society will award a discretionary bonus to colleagues and Executive Directors and a thank you payment of £250 to all colleagues. We believe this is the right outcome given the profitable sustainable performance of the Society and the significant contributions made by colleagues during this challenging time.

Gender Pay Gap and CEO Pay Ratios

Whilst not legally required to disclose gender pay information as an employer with under 250 employees, the Committee reviews these annually and has an action plan for enhancement. This is not only gender focused but also includes ethnicity and disability, and is prioritising development of our talent pools for the future. Overall we have high levels of women in leadership positions.

Performance Related Pay

During the year the Committee considered the introduction of performance related pay as a potential method of reviewing colleagues pay. Following consideration of different options and gathering feedback from colleagues, it was decided to focus upon paying colleagues the market rate for their roles. Therefore pay reviews will continue to be a cost of living increase with performance rewarded through the reintroduction of a bonus scheme for year ending April 2022 as outlined below. For the year ending April 2021 a discretionary bonus is being paid for colleagues and Executive Directors. The Board will only pay performance related bonuses if it believes the Society is financially secure.

The bonus scheme for year ending April 2022 operates consistently for Executive Directors and staff. Executive Directors can receive up to a maximum of 20% of their basic salary for outstanding performance on objectives and behavioural role modelling.

The scheme is based on individual and overall objectives. The overall Society objectives are fully aligned with year 1 of the revised 5-year strategic plan based on a balanced scorecard:

Member	Collegue
Member Satisfaction Members Holding Multiple Products Digital Adoption	Colleague Development Provision of Apprenticeships Colleague Wellbeing
Environmental and Social	**Financial**
Products Supporting Green Initiatives Community and Charity Engagement Green Lending	Cost Efficiency Net Mortgage Growth Net Interest Margin

All decisions around both basic salary and incentives are based around profit before fair value adjustments, to reflect the underlying performance of the Society.

Remuneration Committee (cont)

Benchmarking

The Committee reviews benchmarking information for key roles within the Society.

Workforce Remuneration and Policy

The Committee has been briefed on the 2018 UK Code on Corporate Governance and the Code's focus on remuneration to ensure it is proportional and supports the long-term success of the Society. The Committee will exercise independent judgement and discretion when authorising remuneration outcomes, taking account of the Society and individual performance, and wider circumstances. In this respect, the Committee has considered the rules of the bonus scheme to ensure that it has sufficient flexibility to exercise discretion and override formulaic outcomes. In accordance with its terms of reference, the Committee has regard to remuneration across the wider workforce when determining executive remuneration policy and practices.

The Committee is supported by the Board Risk Committee on risk-related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. The Chair of the Committee is also on the Risk Committee and this ensures good interaction with the Risk Committee and its role in undertaking oversight of any potential conduct risks that might arise from the bonus incentive schemes in operation across the Society.

Due to COVID-19, the decision was taken to suspend the planned bonus scheme for the year ending April 2021 and to freeze salaries for all Directors and colleagues for that year. Subsequently a discretionary bonus was awarded.

During the year the Committee has considered at length the appropriateness of the bonus outcomes for the year ending April 2022. There will be greater alignment with Environmental, Social and Governance (ESG) factors, including climate change. These factors, together with the Society's purpose and values, will be reflected in remuneration policies to ensure they are embedded throughout the Society.

The Committee reviews the relationship between pay policies and practices for executives and colleagues. Consideration has been given to whether the principles and approach to pay should be consistent for everyone, including the Executive Directors. The Society has established a Colleague Forum and the Committee is updated with colleague feedback on culture, workforce policies and remuneration to understand the wider employee perspective.

Remuneration Reporting

We have provided details of our Directors' remuneration on **page 49** and ask our members to approve our Remuneration Report through an advisory vote at the Annual General Meeting.

Our year ending April 2021 Remuneration Report includes the key disclosure requirements of the Code and complies with the regulatory requirements including, in particular, the FCA's Remuneration Code.

Remuneration Committee Effectiveness

An internal effectiveness review was conducted in 2020 which concluded that the Remuneration Committee operated effectively and members had a sufficient balance of skills and experience. An external effectiveness review of the Board and Board Committees was conducted in 2021, including the Remuneration Committee. This review concluded that the Board and its sub-committees were operating effectively.

Debra Lewis
Chair
12th July 2021

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's 2020/2021 Report which sets out our Remuneration Policy and provides, for our members, details of the basic salary, variable pay and benefits earned by Directors in the year to 30th April 2021. The Board is committed to best practice in its Remuneration Policy for Directors and in the interests of transparency it has included an advisory vote at the Annual General Meeting on the Directors' Remuneration Report set out below. The Directors' remuneration for the year is as follows:

Individual Directors' Emoluments

2021	Fees & salary	Performance related incentive scheme	Pension contribution	Taxable benefits	2021 Total	2020 Total
Non-executive Directors:	£000	£000	£000	£000	£000	£000
D R Lewis	57	-	-	-	57	57
T Barratt	39	-	-	-	39	44
N Hingorani-Crain (resigned 11.11.20)	19	-	-	-	19	33
L McKenzie	34	-	-	-	34	35
A D Morgan	39	-	-	-	39	40
R D Turner	33	-	-	-	33	41
Executive Directors:						
W J Carroll	202	16	34	11	263	247
D M Gunter	151	15	24	11	201	186
I J Jones	148	6	27	11	192	186
	722	**37**	**85**	**33**	**877**	**869**

Due to the introduction of a salary exchange arrangement for pensions during the financial year which was offered to all eligible colleagues, the salaries of Executive Directors have reduced slightly according to their chosen level of personal pension contribution and pension contributions have increased accordingly.

Executive Directors are provided with the option of a company car or car allowance, the benefit amounts shown above, show the total value of the benefits provided. This approach is different from previous years where the taxable benefit value was shown, this has been restated in the 2020 and 2019 figures along with a correction of £1k in 2019 where healthcare was missing for one of the Executive Directors.

During this financial year P Leader (former Executive Director) received £49k of contractual payments and £49k notice pay following his end of employment with the Society.

2020	Fees & salary	Performance related incentive scheme	Pension contribution	Taxable benefits	2020 Total	2019 Total
Non-executive Directors:	£000	£000	£000	£000	£000	£000
D R Lewis	57	-	-	-	57	57
T Barratt	39	-	-	5	44	38
N Hingorani-Crain	33	-	-	-	33	33
L McKenzie	31	-	-	4	35	25
A D Morgan	39	-	-	1	40	41
R D Turner	35	-	-	6	41	34
Executive Directors:						
W J Carroll	205	-	31	11	247	268
D M Gunter	153	-	22	11	186	204
I J Jones	153	-	22	11	186	204
	745	**-**	**75**	**49**	**869**	**904**

Only the emoluments set out in the above tables are audited in the Remuneration Report.

Loans to Directors

At 30th April 2021, one Director (2020: one Director) or persons connected with Directors, had mortgage loans granted in the ordinary course of business totaling £545k (2020: £202k). A register containing details of loans and transactions between the Society and its Directors may be inspected at the Society's Head Office, during normal office hours, in the period of fifteen days expiring on the date of the Annual General Meeting, or at that meeting.

Executive Directors' Emoluments

The level of remuneration for Executive Directors' is reviewed each year. The Society's remuneration policy is to reward executive directors through salaries and other benefits, including an incentive scheme designed to recognise the achievement of corporate objectives. Reward packages include basic salary, an annual incentive payment, benefits in kind and pensions. Payments made as a result of the annual incentive scheme are not pensionable.

Basic Salaries

Basic salaries are normally reviewed annually by reference to performance, jobs carrying similar responsibilities in comparable financial organisations and in the light of market conditions generally. Due to COVID-19 no pay increases were awarded during the year.

Incentive Scheme

For the year to 30th April 2021, there was no planned annual incentive scheme in place for Executive Directors. However, in recognition of their achievements and the Society's success during a difficult year a financial reward outside the scheme has been provided for Executive Directors and colleagues. For the 2021/22 financial year an inventive scheme has been reintroduced aligned to the new 5-year strategic plan.

Pensions and other Benefits

Executive Directors are contributory members of the Society Stakeholder pension scheme. Executive Directors are provided with healthcare and the option of a company car or car allowance, the benefit amounts shown overleaf show the total value of the benefits provided. All colleagues were provided with additional annual leave during the year to recognise their commitment throughout the COVID-19 pandemic.

The Code recommends that an Executive director's service contract notice period should be set at twelve months or less. The Society meets this requirement. The Chief Executive Officer is subject to a notice period of twelve months. Other Executive Directors are subject to a notice period of six months.

Non-Executive Directors' Remuneration

The fees for non-executive Directors were determined by the Executive Directors and the Chair. The Chair's remuneration is determined by the Committee in the absence of the Chair. Additional fees are paid to the Senior Independent Director and the Risk, Remuneration and Audit Committee Chairs to reflect their increased responsibility. The level of fees is regularly compared with fees for non-executive Directors' remuneration in comparable organisations.

There are no bonus schemes or other benefits for Non-Executive Directors and they are not entitled to any pension. They are subject to written terms and conditions of employment and to re-election in line with the Society Rules, from 2021 re-election will be annual.

Overall this year has been balanced for remuneration, being prudent at the start of the Covid-19 pandemic in awarding no pay rise for this financial year and removing the bonus scheme. Subsequently, the excellent response of our high performing team has enabled us to reward their commitment while retaining fairness to all stakeholders.

Liz McKenzie
Remuneration Committee Chair
12th July 2021

Risk Management Report

We outline below the principal risks and uncertainties to achieving the Society's strategic priorities together with our mitigating activities:

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Strategic Risk The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the Plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.	Embrace change and explore new opportunities to serve our members in pursuit of sustainable asset growth and accumulation of capital reserves in line with our ambitious 5-year strategy.	• Business planning process • Quarterly strategic updates to Board accompanied by challenge from Risk & Compliance function • Ongoing monitoring of Key Performance Indicators and Risk Appetite Measures • Investment in underlying processes, systems and people to support new business developments • Business planning stress testing • Robust enterprise risk management and corporate governance frameworks
Credit Risk The risk of losses arising from a debtor's failure to meet its legal and contractual obligations.	A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.	• Board approved risk appetite and risk limits • Responsible Lending Policy, Commercial Lending Policy • Treasury Policy • Treasury Management System • Robust underwriting criteria • Counterparty limits and reviews • Stress testing • Mortgage Lending Risk Committee & Assets and Liabilities Committee in Financial soundness risk and Market risk oversight • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) • Credit risk reporting, including layering of risk metrics
Financial Soundness Risk The risk that insufficient funds are available to meet financial obligations as they fall due and/ or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.	**Liquidity** Maintain liquid resources above Board-approved treasury financial minimums to give members confidence on the Society's ability to meet its obligations. **Capital** Utilise capital effectively to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme scenarios and to meet regulatory requirements.	• Board approved risk appetite and risk limits • Maintaining appropriate levels of High Quality Liquid Assets • Treasury Policy • Treasury Middle Office reporting and monitoring • The Society's Internal Liquidity Adequacy Assessment Process (ILAAP) • The Society's Internal Capital Adequacy Assessment Process (ICAAP) • Stress testing • Assets and Liabilities Committee oversight • Recovery Plan
Market Risk The risk of losses arising from changes in market rates or prices.	Limit exposure to variation in interest rate and basis risk positions from adverse movements in market rates. Ensure exposures remain within forecast market expectations.	• Board approved risk appetite and risk limits • Stress testing • Assets and Liabilities Committee oversight • Treasury Middle Office reporting and monitoring

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Develop robust processes and controls to optimise resources and reduce the impact of operational risks on the Society's performance.	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing) • Insurances • Operational Risk and Compliance Committee oversight • Continued investment in developing risk management frameworks, policies, systems and processes • Continuous improvement, learning from internal and external risk events, results of Controls Assurance Testing and responding to findings from Second Line and Third Line (Internal Audit reviews) • Risk Champions in each business area, supporting their Executive maintain strong risk management practices • Investment in our operational resilience including cyber-crime and IT
Conduct Risk The risk of financial or reputational loss as a result of treating customers unfairly and delivering inappropriate outcomes that lead to customer detriment.	We aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Society's aims and values.	• Board approved risk appetite limits and Conduct Risk Policy • Members are placed at the heart of our decision making, aligned to our Society Values (Member Led) • Operational Risk and Compliance Committee oversight • Strong risk management culture • Conduct Risk Dashboard • Vulnerable Customer Policy
Legal and Regulatory Risk The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.	Maintain robust controls to ensure compliance with the intent and spirit of relevant laws and regulation.	• Regulatory horizon scanning • Board approved risk appetite limits • Strong compliance culture • Operational Risk and Compliance Committee oversight • Compliance Framework • Open and transparent relationship with all regulatory bodies
Pension Obligation Risk The risk of a material financial deficit in the Society's Defined Benefit Scheme	Ensure the Society's contractual and regulatory obligations are met.	• Scheme closed to new members in 2001 and closed to future accrual in 2020 • Pension valuation and scheme actuary reports • Investment strategy • Capital planning

Risk Management Report (cont)

Other Material Risks

Other material risks consist of matters of material significance to the Society which are either temporary or not yet sufficiently developed to incorporate into the Primary Risk framework.

Non-Primary Risk	Approach	Key Mitigating Actions
COVID-19 Coronavirus represents a generational disruption to life in the UK, with the true and lasting impact to the UK and global economy not yet known.	The Society has responded effectively to the challenges of COVID-19, ensuring our members and colleagues are safe and supported throughout. We continue to monitor and assess the longer-term impacts the pandemic may bring.	• The Society continued to respond constructively to the pandemic over the past 12 months, capitalising on the successes of our early response to support future growth. For example, steps taken to enable remote working have improved our operational resilience and allowed us to introduce an agile working approach to the benefit of current and future colleagues. • From a macroeconomic perspective, the true impact of the pandemic remains unclear as government support schemes remained in place throughout the fiscal year. Regardless of the outcome, the Society took steps to assess its arrears management strategies to ensure they are fit for purpose in the event of an increase in payment difficulties for our members. • The Society's response to COVID-19 and its impact on our strategy is captured within the Strategic Report (**pages 9-11**)

Non-Primary Risk	Approach	Key Mitigating Actions
Climate Change The Bank of England (BoE), Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) are continuing to review and update regulatory expectations related to climate change. The Society recognises two primary elements of climate change risk: **Physical Risk** The risk of the Society being impacted by climate and weather-related events, such as heatwaves, droughts, floods, storms and sea level rise. These events can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers and; **Transition Risk** Risks arising from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.	Ensure the Society develops processes, controls and reporting metrics to assess and manage climate change risk. The climate change elements manifest as increasing credit, market and operational risk for the Society which require effective mitigation and management.	• The Society has established and is tracking a formal climate change project which is considering the requirements of the PRA's SS3/19, the recommendations made by the Task Force on Climate Related Financial Disclosures (TCFD) as well as increasing expectations on Environmental, Social and Corporate Governance arising from various sources. • The potential financial impact of climate change on the Society has been considered within our most recent ICAAP, whilst disclosures relating to climate change within this annual report have also been enhanced. • As part of the climate change project, we continue to assess the impacts and potential mitigations for credit, market and operational risks which may transpire.

Risk Management Report (cont)

Risk Overview

The Society recognises that risk is inherent in the delivery of the Board's member-led strategy. Whilst these risks can never be eliminated entirely, through effective risk management they can be mitigated to levels aligned to our risk appetite. The Board has agreed a risk appetite that establishes the amount of risk acceptable to the business in pursuit of its strategy, helping the Society achieve sustainable growth and serving the best interests of our members and customers. This is kept under review as our operating environment may change.

The Board is responsible for establishing procedures to manage risk, oversee the internal control framework and determine the nature and extent of primary risks the Society is willing to take in order to achieve its long-term strategic objectives, ensure operational resilience and make effective risk-based decisions. The Board meets these responsibilities by ensuring an effective risk management framework is in place, using that framework to promote a risk aware culture that ensures all material risks are identified and mitigated in the pursuit of strategic objectives. Throughout the year, the Board has continued to invest in the Society's Enterprise Risk Management Framework (ERMF) to ensure the ongoing development and enhancement of its risk management capabilities. The Board reviews the Enterprise Risk Management Framework and Risk Appetite statements annually.

Risk Culture

The Society's risk culture is an important component and driver of our overall corporate culture. The Board has established a risk culture that is guided by strong risk management principles and aligned to our values to support and provide appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the Society Chair and of the Board to ensure that a sound risk culture is embedded throughout the Society and all colleagues feel able to 'speak up'.

The Society's risk culture is expressed through the attitudes and behaviours demonstrated by all colleagues regarding risk awareness, risk taking and risk management. The Board has created an environment for colleagues where integrity, ownership, accountability, customer interests and respect are at the heart of the Society's objectives, values and business practices.

Our risk culture underpins how our colleagues approach their work and guides decision making. The Society's values are outlined on **page 9** and are an integral part of our risk culture along with our member-led strategy and core purpose of helping members, communities and colleagues to thrive.

Enterprise Risk Management Framework

Risk management is the foundation of effective internal control and a critical element of good corporate governance. The Society's ERMF has established a formal, consistent process for the identification, prioritisation and management of risk. The framework is the cornerstone of our risk culture where all colleagues take responsibility for ensuring material risks are identified, measured, assessed, monitored, controlled and mitigated within the context of the Society's Risk Appetite.

The Risk & Compliance Department are responsible for overseeing the effective engagement of colleagues in the operation of the ERMF, providing guidance, training as well as oversight and challenge. The Risk Committee establishes an appropriate tone through clear articulation of its risk appetite and values linked to the Society's strategic objectives. This ensures that risk management forms an integral part of the Society's activities, informing decision making and ensuring the engagement of all colleagues in the implementation of the framework across the Society.

To ensure effective risk management principles outlined within the ERMF continue to embed and mature throughout the Society, Risk Champions have been nominated within each department. Risk Champions play an essential role within the Society's ERMF, supporting their Executives through the implementation of the ERMF in their departments, the collection and reporting of risk management information and promotion of a sound risk culture.

The Society operates a typical Three Lines of Defence approach in the design and implementation of the ERMF. This provides clarity over roles and responsibilities for risk management within the Society, enabling the Risk Committee to establish a clear governance structure for the identification, measurement, assessment, monitoring and management of risks. This approach is designed to deliver the strategic objectives in line with the overall Risk Appetite of the Board.

The first line of defence retains overall accountability and ownership of risks within their business area. They are responsible for implementing the requirements of the ERMF, including the identification, measurement, assessment, monitoring, control and mitigation of their risks within the Society's risk appetite. The first line is also responsible for promoting and reinforcing a sound risk culture.

The second line of defence is responsible for the design and administration of the ERMF and assuring its successful implementation in the first line. They provide support, oversight and challenge to the first line, and report directly through governance committees, including the Board.

The third line of defence is the Society's internal audit team which provides independent assurance over the effective operation of the first two lines of defence and the design and appropriateness of systems of internal control implemented throughout the business.

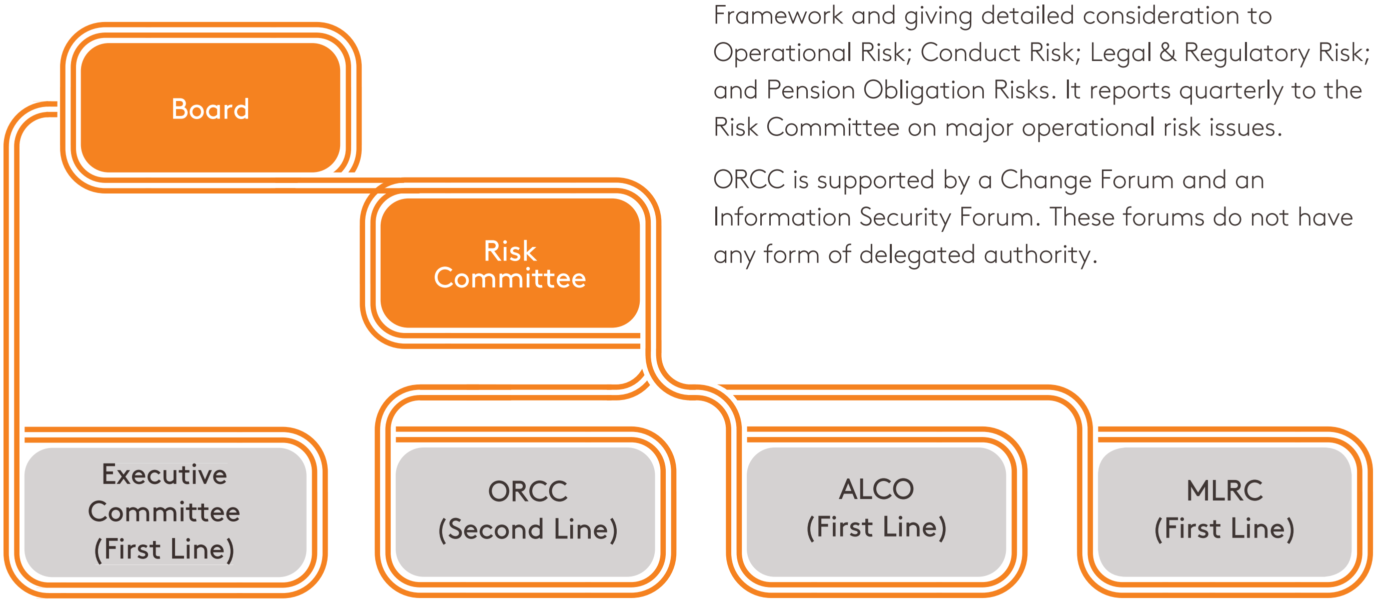
Risk Management Report (cont)

Risk Governance Structure

The Board is ultimately responsible for all aspects of the Society's activities in pursuit of its strategic objectives. The Board retain overall accountability and ownership of the Enterprise Risk Management Framework and delegate to the Risk Committee the responsibility for ensuring the ongoing development, implementation and enhancement of the framework. The governance structure is robust and designed to promote open and constructive challenge.

The Society operates three management-level Risk Committees to ensure there is proactive management and governance of risk and control issues under the Enterprise Risk Management Framework. Clear reporting lines from the management risk Committees to Risk Committee are defined to ensure focus remains on areas that could significantly impact the Society, whilst enabling risk owners and responsible staff to fulfil their accountabilities and responsibilities. The risk governance structure of the Society is outlined below.

In addition to the management-level Committees, the Society also operates an Executive Committee which supports the Chief Executive and comprises the three Executive Directors, Chief Risk Officer and Head of People and Culture. The responsibilities of the Committee include the assessment and control of risk, with matters raised at this Committee relating to risk elevated to the relevant management level risk Committee or, if warranted, directly to Risk Committee or Board as appropriate. We undertake annual effectiveness reviews on all Committees to ensure the ongoing reviews and considerations for improvements can be made.



Risk Committee

The Risk Committee is a Board level Committee and meets quarterly. Special meetings are held to undertake deep dives into core risk processes and policies e.g. ILAAP / ICAAP and the ERMF. The Board has delegated certain responsibilities to the Risk Committee as detailed in their Terms of Reference.

The Board is responsible for setting the overall risk strategy for the Society, and for the overall design and implementation of the Enterprise Risk Management Framework, with the support of the Risk Committee. The Risk Committee is also responsible for monitoring the Society's performance against the defined Risk Appetite Measures to ensure it is operating within agreed Risk Appetites.

Operational Risk & Compliance Committee (ORCC)

ORCC is a Second Line of Defence Management Committee, chaired by the Chief Risk Officer, with responsibility for overseeing the establishment and maintenance of appropriate risk management systems and controls in line with the Enterprise Risk Management Framework and giving detailed consideration to Operational Risk; Conduct Risk; Legal & Regulatory Risk; and Pension Obligation Risks. It reports quarterly to the Risk Committee on major operational risk issues.

ORCC is supported by a Change Forum and an Information Security Forum. These forums do not have any form of delegated authority.

Assets & Liabilities Committee (ALCO)

ALCO is a First Line of Defence Management Committee, chaired by the Finance Director, with responsibility for giving detailed consideration to matters relevant to financial soundness and market risks including margin, liquidity, funding, pricing, capital and financial risk management. In addition, product specific ALCO meetings are held as required to manage the product governance process within the Society.

ALCO is supported by a Product Proposition Forum (PPF), Pricing and Liquidity Group (PLG) and an Assumptions Forum. These forums do not have any form of delegated authority.

Mortgage Lending Risk Committee (MLRC)

MLRC is a First Line of Defence Management Committee, chaired by the Chief Operating Officer, with responsibility for giving detailed consideration to Credit Risks relevant to the Society's mortgage lending and to receive reports considering the emerging risks within the mortgage book.

MLRC is supported by a Broker Forum. This forum does not have any form of delegated authority.

Stress Testing

Stress and scenario testing form a key part in the Society's strategy, risk management and capital planning decisions and are a key component of the Enterprise Risk Management Framework (ERMF). Stress tests are carried out on a regular basis for planning and risk management purposes to identify, analyse and manage risks. Stress testing alerts management to adverse unexpected outcomes related to a variety of risks and provides an indication of the level of capital and/or liquidity required to absorb losses should large shocks occur.

Stress testing supplements other risk management approaches and measures. It has a particularly important role in:

- Providing forward-looking assessments of risk
- Overcoming limitations of models and historical data
- Supporting internal and external communication of risks
- Feeding into capital and liquidity planning procedures
- Informing the setting of the Society's risk tolerance
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions

Stress testing is especially important after long periods of benign economic and financial conditions, when fading memory of negative conditions can lead to complacency and the under-pricing of risk. It is also a key risk management tool during periods of growth. Growth leads to new products, services and scenarios that grow rapidly and for which limited data or resource may exist.

Stress testing helps ensure the Society has a sustainable business model and it is a key component of the Society's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

Reverse stress testing considers situations which could result in the Society's business model becoming unviable. The Society will consider these extreme adverse events and use the information to help improve contingency and recovery plans.

Emerging Risks

Emerging risks are threats or opportunities for which the impact upon the Society cannot yet be reasonably measured or assessed. Timely identification and monitoring of these emerging risks can enable the Society to take appropriate steps to begin to mitigate against the emerging threat or move to position the Society in such a way as to be ready to take advantage of an emerging opportunity.

The Executive Committee and Risk Committee receive a summary of emerging risks relevant to their respective responsibilities which includes the current approach to either monitoring or mitigating against the emerging risk. When the risk develops to a state where it can be reliably assessed, it is transitioned into active risk management within the ERMF. The Board, Risk Committee and management-level committees also discuss emerging risks and opportunities as a standing agenda item which contribute toward the regular update of the Society's register of emerging risks.

Statement of Directors' Responsibilities
in Respect of the Annual Accounts

The following Statement, which should be read in conjunction with the Independent Auditor's Report on **pages 60-66**, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement, Strategic Report and Directors' Report.

The Building Societies Act 1986 (the "Act") requires the Directors to prepare financial statements for each financial year. Under the Act the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under the Act the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Building Societies Act 1986. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report
to the Members of Monmouthshire Building Society

Opinion on the financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group's and of the Society's affairs as at 30th April 2021 and of the Group and Society's profit for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been prepared in accordance with the requirements of the Building Societies Act 1986

We have audited the financial statements of Monmouthshire Building Society (the 'Society') and its subsidiaries ("the Group") for the year ended 30th April 2021 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statement of Other Comprehensive Income, the Group and Society Statement of Financial Position, the Group and Society Statement of Changes in Member's Interests, the Group Consolidated Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee we were appointed by the members at the AGM on 26th August 2020 to audit the financial statements for the year ending 30th April 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 1 year, covering the year ended 30th April 2021. We remain independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- Assessing Directors' assessment of going concern including supporting financial forecasts
- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and regulatory capital and liquidity requirements
- Challenging management's assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress-test scenarios
- Assessing how management have factored in key external factors expected to impact the Society such as the COVID-19 pandemic & BREXIT, checking these had been appropriately considered as part of management's going concern assessment

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report (cont)
to the Members of Monmouthshire Building Society

Overview

Overview		
Coverage	100% of Group profit before tax 100% of Group interest receivable 100% of Group total assets	
Key audit matters		2021
	Revenue Recognition	√
	Impairment losses on loans and advances	√
Materiality	£300,000 based on 0.50 % of Tier 1 capital	

An overview of the scope of our audit
Our audit approach was developed by obtaining an understanding of the Group's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Group's transactions and balances which were most likely to give risk to a material misstatement.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter		How the scope of our audit addressed the key audit matter
Revenue Recognition The Group's accounting policies are detailed on **page 72** with detail about judgements in applying. Accounting policies and critical accounting estimates on **page 75**.	The Group's mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of FRS 102. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for the Group's loans and advances within these models. Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue. The key assumption in the EIR models is the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Revenue recognition was identified as a key audit matter because it is a complex area which requires significant judgement, and it is an area which had a large effect on our audit strategy and allocation of resources in planning and completing our audit of the Society.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of FRS 102. This included assessment of the types of fees and costs being spread within the effective interest rate models. We assessed the completeness and accuracy of data and key model inputs feeding into the EIR model by agreeing samples to the system or source documents. We verified the arithmetic accuracy of the models through re-calculation. We critically assessed and challenged management on the appropriateness of the EIR, such as the behavioural life of loan portfolios with reference to the Society's own and external data. We tested the loan behavioural life run-off curves used by management for the EIR calculations based on the Society's historical data. We assessed and challenged management's expected repayment profile assumptions, against recent historical experience of loan lives, and whether any adjustments to recent historical redemption profiles used in the EIR model were necessary to reflect expected changes in future redemption profiles. We utilised data analytics to perform a full recalculation of the contractual interest recognised during the financial year on loans advanced. **Key observations:** We have not identified any indicators that the assumptions included in the EIR models are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

<table>
<tr><th colspan="2">Key Audit Matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr>
<td>Impairment losses on loans and advances

The Group's accounting policies are detailed on page 72 with detail about judgements in applying.

Accounting policies and critical accounting estimates on page 75.

As disclosed in Note 11, the Society holds £1,539k of impairment provision at year end.</td>
<td>The Group accounts for the impairment of loans and advances to customers using an incurred loss model.

In accordance with the recognition and measurement criteria of FRS 102, management has calculated two types of provisions.

(i) A specific provision is calculated for loans where there is an observable loss event.

(ii) A collective provision is recognised for loans which are impaired as at the year-end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans, being impairment that has been incurred but not reported.

Loan loss provisioning was identified as a key audit matter because estimating an appropriate loan loss provision requires significant judgement in determining the value and timing of future cash flows. In particular, the assumptions related to the cash flows expected to be received from the sale of property have the most significant impact on the provision.</td>
<td>Our testing on specific provisions included selecting a sample of loans and checking the collateral valuation to the external valuations obtained by management, including re-calculations of indexed property valuations and verifying the credentials of management's expertise.

We tested the discount rate applied to the collateral valuations based on past actual discounts where collateral was sold. We also tested the population of loans to gain comfort that all loans that meet the criteria for a specific provision have been included for specific provisioning.

We tested the appropriateness of the key assumptions within this model in relation to the collective provision, such as impairment triggers, indexed property valuations, and probability of defaults through a combination of, independent recalculations and agreeing inputs to external data sources where applicable, and taking into account current market conditions which pertain to the mortgage book.

We tested the completeness and accuracy of key model inputs by agreeing them back on a sample basis to underlying source data. We performed sensitivity analysis on the discount applied to the indexed collateral valuations and to the level of segmentation in the model.

We verified the arithmetic accuracy of the models through re-calculation.

We reconciled the loan balances in the models to test whether the relevant loan populations were being considered for impairment.

Key observations:

We noted no material exceptions through performing these procedures.</td>
</tr>
</table>

Independent Auditor's Report (cont)
to the Members of Monmouthshire Building Society

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group 2021	Society 2021
Materiality	£300,000	£285,000
Basis for determining materiality	0.50% of Tier 1 capital	95% of Group materiality
Rationale for the benchmark applied	We determined that Tier 1 capital was the most appropriate benchmark considering the difference in stakeholders. In particular as regulatory stability is considered to be a main driver for the Group as well as the purpose of the Society which is to optimise rather than maximise profits.	This has been limited to a percentage of Group financial statement materiality.
Performance materiality	£180,000	£171,000
Basis for determining performance materiality	60% of materiality Lower level of materiality applied, in particular considering this our first year auditing the Group.	60% of materiality Lower level of materiality applied, in particular considering this our first year auditing the Society.

Reporting Threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £5,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other Building Societies Act 1986 Reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described below:

Annual business statement and directors' report	In our opinion, based on the work undertaken in the course of the audit: • The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986 • The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements • The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given In the light of the knowledge and understanding of the Group and Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • Adequate accounting records have not been kept • The financial statements are not in agreement with the accounting records • We have not received all the information and explanations we require for our audit

Opinion on Other Matters Prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on **page 86** for the financial year ended 30th April 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

As explained more fully in the statements of Director's responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or Society or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report (cont)
to the Members of Monmouthshire Building Society

Extent to Which the Audit was Capable of Detecting Irregularities, Including Fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation and tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above
- Enquiring of management, Internal Audit and the Audit Committee
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we identified potential for fraud in relation to accounting estimates such as EIR and loan loss provisioning.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.
This description forms part of our auditor's report.

Use of our Report

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matt Hopkins

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

12th July 2021

London, UK

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income and Expenditure Accounts

Year ended 30th April 2021

	Notes	Group 2021 £000	Group 2020 £000	Society 2021 £000	Society 2020 £000
Interest receivable and similar income	2	24,036	25,428	24,036	25,428
Interest payable and similar charges	3	(9,152)	(12,472)	(9,152)	(12,472)
Net interest receivable		14,884	12,956	14,884	12,956
Income from investments		-	22	-	22
Fees and commissions receivable		229	305	229	305
Fees and commissions payable		(380)	(387)	(380)	(387)
Other operating income		30	66	(1)	-
Other fair value gains/(losses)	4	586	(1,410)	586	(1,410)
Total operating income		15,349	11,552	15,318	11,486
Administrative expenses	6	(12,033)	(11,212)	(12,081)	(11,272)
Depreciation and amortisation	14, 15	(718)	(782)	(692)	(744)
Total operating profit/(loss) before provisions		2,598	(442)	2,545	(530)
Provisions for bad and doubtful debts	11	(679)	(703)	(679)	(703)
Other provisions	20	(32)	(51)	(32)	(51)
Operating profit/(loss)		1,887	(1,196)	1,834	(1,284)
Profit/(Loss) on ordinary activities before tax		1,887	(1,196)	1,834	(1,284)
Tax on profit/(loss) on ordinary activities	7	(321)	199	(304)	228
Profit/(Loss) for the financial year		1,566	(997)	1,530	(1,056)

The notes on **pages 72-104** form an integral part of these accounts.

Statement of Other Comprehensive Income

Year ended 30th April 2021

	Notes	Group		Society	
		2021 £000	2020 £000	2021 £000	2020 £000
Profit/(Loss) for the financial year		1,566	(997)	1,530	(1,056)
Actuarial gains/(losses) recognised in the pension scheme	21	162	(1,705)	162	(1,705)
Gain on available for sale assets		-	121	-	121
Deferred Tax credit		57	371	57	370
Total recognised gains/(losses) relating to the financial year and recognised since last annual report		1,785	(2,210)	1,749	(2,270)

The notes on **pages 72-104** form an integral part of these accounts.

Statement of Financial Position
As at 30th April 2021

		Group		Society	
Assets	Notes	2021 £000	2020 £000	2021 £000	2020 £000
Liquid Assets					
Cash in hand		609	584	363	403
Loans and Advances to Credit Institutions					
Repayable on demand		157,750	112,901	157,750	112,901
Other loans and advances	8	-	3,528	-	3,528
Debt securities issued by other borrowers	9	80,352	93,009	80,352	93,009
Derivative financial instruments	13	1,247	2	1,247	2
Loans and Advances to Customers					
Loans fully secured on residential property	10	1,116,354	1,003,752	1,116,354	1,003,752
Other loans – fully secured on land	10	19,818	22,927	19,818	22,927
Investments	12	369	369	2,444	2,444
Intangible fixed assets	14	1,130	1,192	1,130	1,192
Tangible fixed assets	15	5,949	6,359	4,482	4,852
Other assets	25	1,151	1,503	1,128	1,481
Prepayments and accrued income		800	970	800	970
Total assets		1,385,529	1,247,096	1,385,868	1,247,461
Liabilities					
Shares	16	1,002,010	883,355	1,002,010	883,355
Amounts owed to credit institutions	17	90,241	98,297	90,241	98,297
Amounts owed to other customers	18	216,402	187,590	216,402	187,590
Derivative financial instruments	13	5,879	9,438	5,879	9,438
Other liabilities	19	2,167	1,596	2,865	2,284
Accruals and deferred income		1,317	623	1,317	623
Provisions for liabilities	20	32	124	32	124
Net pension scheme liability	21	3,925	4,302	3,925	4,302
Total equity attributable to members		63,556	61,771	63,197	61,448
Total equity and liabilities		1,385,529	1,247,096	1,385,868	1,247,461

The notes on **pages 72-104** form an integral part of these accounts. These financial statements were approved by the Board of Directors and authorised for issue on 12th July 2021.

Debra Lewis **William Carroll** **Iwan Jones**

Statement of Changes in Members' Interests As at 30th April 2021

Year ended 30th April 2020
Group

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1st May 2019 as restated		**63,963**	**19**	**63,982**
Loss for the financial year		(997)	-	(997)
Other comprehensive income in the period				
Actuarial Loss recognised in the pension scheme		(1,705)	-	(1,705)
Gain on revaluation of assets available for sale		-	121	121
Reclassification of available for sale assets		140	(140)	-
Deferred tax credit		370	-	370
At 30th April 2020		**61,771**	**0**	**61,771**

Year ended 30th April 2021

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1st May 2020		**61,771**	**0**	**61,771**
Profit for the financial year		1,566	-	1,566
Other Comprehensive Income in the Period				
Actuarial gain recognised in the pension scheme	21	162	-	162
Deferred tax credit		57	-	57
At 30th April 2021		**63,556**	**0**	**63,556**

Year ended 30th April 2020
Society

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1st May 2019 as restated		**63,699**	**19**	**63,718**
Loss for the financial year		(1,056)	-	(1,056)
Other comprehensive income in the period				
Actuarial Loss recognised in the pension scheme		(1,705)	-	(1,705)
Loss on revaluation of assets available for sale		-	121	121
Reclassification of available for sale assets		140	(140)	-
Deferred tax credit		370	-	370
At 30th April 2020		**61,448**	**0**	**61,448**

Year ended 30th April 2021

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1st May 2020		**61,448**	**0**	**61,448**
Profit for the financial year		1,530	-	1,530
Other Comprehensive Income in the Period				
Actuarial gain recognised in the pension scheme	21	162	-	162
Deferred tax credit		57	-	57
At 30th April 2021		**63,197**	**0**	**63,197**

Consolidated Cash Flow Statement

	Group	
	2021 £000	2020 £000
Net cash inflows from operating activities (see below)	32,506	49,109
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(288)	(719)
Disposal of debt securities	12,657	(42,743)
Net cash inflows/(outflows) from investing activities	12,368	(43,462)
Net increase in cash and cash equivalents	44,875	5,647
Cash and cash equivalents at beginning of the year	113,486	107,839
Cash and cash equivalents at end of the year	158,361	113,486
Cashflows from operating activities		
Profit/(loss) on operating activities before tax	1,888	(1,196)
Provisions for bad and doubtful debts	679	703
Depreciation and amortisation	718	805
Net pension costs	(215)	(291)
Loss on sale of tangible and intangible fixed assets	43	213
Net cash flow from operating activities before movement in operating assets and liabilities	3,113	234
Movement in operating assets and liabilities		
Loans and advances to customers	(110,026)	(92,713)
Shares	118,655	65,413
Amounts owed to credit institutions and other customers	20,756	64,538
Loans and advances to other credit institutions	3,528	3,504
Other assets	(836)	(221)
Other liabilities	(2,988)	9,320
Movements in prepayments and accrued income	170	(367)
Movements in accruals and deferred income	695	(82)
Movements in provisions for liabilities	(92)	51
Loans and advances written off	(147)	(203)
Taxation paid	(321)	(365)
Net cash inflows from operating activities	**32,507**	49,109

Notes to the Accounts

Year ended 30th April 2021

1. Accounting Policies

General Information

Monmouthshire Building Society is a building society and is incorporated in England & Wales. The Society is located within the United Kingdom and its registered office address is Monmouthshire Building Society, John Frost Square, Newport, NP20 1PX.

Basis of Preparation

Both the Group and Society Annual Accounts have been prepared in accordance with Financial Reporting Standard 102, IAS 39 Financial Instruments: Recognition and Measurement and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended). The accounts have been prepared under the historical cost convention as modified to include the revaluation of financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets. The Accounts have been prepared on the going concern basis as outlined in the Directors' Report. The Society has taken advantage of the exemption in FRS102, which provides that where a company is a member of a group and a Consolidated Cash Flow Statement is published, the Society does not have to prepare a Cash Flow Statement. Numbers in the accounts are rounded to £000.

Going Concern

The Society conducts annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reviews to assess and stress test its capital and liquidity positions respectively, in line with PRA requirements. These requirements include the need to model the impact on the Society of a range of severe but plausible stresses to residential house prices, unemployment, interest rates and funding outflows. Supported by these reviews, the Directors are satisfied that the Society's position with respect to its capital, asset credit quality, funding and profitability should ensure that it has adequate resources to continue in business for a period of at least 12 months from the signing date of these financial statements. Directors believe this to be the case even in the face of current uncertainties, including those that may arise as a result of the evolving Brexit and COVID-19 situation. In light of the current health crisis, the Society has applied robust stress testing to its 3-year forecasts and prepared a detailed long-term viability/going concern document, which considers potential economic effects of the virus on our growth, profit, capital, liquidity, funding and operations. The analysis concluded that the Society remains extremely well placed to be able to withstand the negative consequences of COVID-19. For this reason, the accounts continue to be prepared on the going concern basis.

Interest Income and Interest Payable

Interest receivable and interest payable, for all interest-bearing financial instruments held at amortised cost, are recognised in the Income and Expenditure Account using the Effective Interest Rate (EIR) method. This method calculates the amortised cost of a financial instrument and allocates the interest income or expense over the expected average life.

The EIR Method includes the reversionary interest, early repayment charges, all fees received, and costs borne by the Society that are an integral part of the yield of the financial instrument. The main impact for the Society relates to behavioural lives incorporated in the calculation.

Interest income on available-for-sale instruments, derivatives and other financial assets accounted for at fair value is included in "Interest receivable and similar income".

Fees and Commissions Receivable

Fees and commissions receivable or payable that are an integral element of the effective interest rate of the financial instrument are recognised as an adjustment to the effective interest rate and recorded within "Interest receivable and similar income". Any other fees and commissions receivable are recognised when the Society has fulfilled all contractual obligations. Fees and commissions payable not included within the effective interest rate are recognised on an accruals basis when the underlying service has been provided.

Taxation

Current and deferred tax is provided on the Society's taxable profits at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the date of the accounts.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the financial year end where transactions or events

Notes to the Accounts

that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the financial year end. Timing differences are differences between the Society's results as stated in the financial statements and its taxable profits. These arise from where there are gains and losses in tax assessments in periods other than those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Where tax becomes chargeable to or deductible for tax purposes, the resulting tax expense or income is presented in the same component of comprehensive income or equity as the transaction that resulted in the tax expense or income. Tax assets and liabilities are offset only if the Society has a legally enforceable right to set off such assets and liabilities.

Financial Assets

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Group and Society classifies its financial assets into the following categories:

a) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Society's loans and receivables are measured at amortised cost using the EIR Method less provisions for impairment. In accordance with the EIR Method, directly attributable costs and fees are deferred and recognised over the expected life of mortgage assets.

b) Available-for-sale financial assets

These are non-derivative assets, that are intended to be held for an indefinite period of time and which may be sold in response to changes in liquidity requirements or interest rates. Available-for-sale assets are measured at fair value with unrealised gains or losses recognised in Other Comprehensive Income. On sale or impairment of the asset, the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified to profit or loss. The fair values of quoted investments in active markets are based on current bid prices. Premiums and discounts on available-for-sale assets are amortised until maturity.

c) Financial assets at fair value through Profit and Loss

These are derivative financial assets initially recognised at fair value on the date on which the derivative contract is entered into. Subsequent movements in fair value are recognised in the Income and Expenditure Account. Gains or losses on early terminated hedges are also recognised in the Income and Expenditure Account. The Group and Society derecognises financial assets when the rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred to another party.

d) Held to Maturity financial assets

Debt instruments that the Society intends to hold to their maturity date irrespective of changes in market prices or the entity's financial position or performance are categorized as Held-to-Maturity (HTM) investments. To qualify as HTM the Group and Society must have a positive intent and ability to hold the financial asset to maturity and the financial asset has to be quoted on an active market. When an entity's actions cast doubt on its intent or ability to hold investments to maturity, the entity is prohibited from using the held-to-maturity category for a reasonable period of time. A penalty is therefore effectively imposed for a change in management's intention. The entity is forced to reclassify all its held-to-maturity investments as available-for-sale and measure them at fair value until it is able, through subsequent actions, to restore faith in its intentions. An entity may not classify any financial assets as held to maturity if during the current or preceding two years it has sold or reclassified more than an insignificant amount of held to maturity investments except in very narrowly defined circumstances. Held-to-maturity assets are subsequently carried at amortised cost and are subject to impairment testing.

Financial Liabilities

Non-derivative financial liabilities are initially recognised at fair value being the issue proceeds net of premiums, discounts and transaction costs incurred. These are subsequently held at amortised cost using the EIR Method. Derivative financial liabilities are recognised at fair value on inception with movements in fair value being recognised in the Income and Expenditure Account. Financial liabilities are derecognised when the obligation is cancelled, discharged or has expired.

Impairment Losses on Loans and Advances to Customers and Credit Institutions

At each year end the Group and Society performs an assessment as to whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment may include: indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the debt being restructured to reduce the burden on the borrower, any breach of contract, and other overall economic conditions. If there is evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the net present value of estimated discounted future cash flows. Loans are considered for the specific provision at three or more months in arrears. Loans less than three months are considered for the collective provision.

The resultant provisions are deducted from the related asset values in the Statement of Financial Position and the movement is recorded in the Income and Expenditure account.

Other Provisions and Contingent Liabilities

The Group and Society recognises provisions when a legal or constructive obligation exists as a consequence of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Where it is not probable that the obligation will be settled, and/or it cannot be reliably estimated, a contingent liability is disclosed in the Notes to the Accounts.

Borrowings

Commissions and other costs incurred in the raising of borrowings are amortised over the period to maturity.

Retirement Benefits

For the defined benefit scheme, the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments are included as part of staff costs. The net interest cost on the net defined benefit liability is included within finance costs in the Income and Expenditure Account.

Actuarial gains and losses (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in Other Comprehensive Income. The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Society, in separate trustee administered funds. The actuarial valuations are obtained at least triennially and are updated at each financial year end.

For the defined contribution scheme, pension costs are charged to the Income and Expenditure Account. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Derivative Financial Instruments and Hedge Accounting

The Society uses derivatives only for risk management purposes. The Society does not hold or issue derivative financial instruments for trading purposes.

a) Derivative financial instruments

Derivatives are initially measured at fair value, at the date the derivative contract is entered into, with subsequent movements in fair value recognised in the Income and Expenditure Account.

b) Fair Value Measurement

Fair values are calculated by applying yield curves, to a discounted cash flow model. Derivatives with a positive fair value are classified as assets with derivatives that have a negative value being classified as liabilities.

c) Hedge accounting

Where the transactions meet the criteria specified in IAS 39, the Group and Society uses hedge accounting. Hedge relationships are formally designated and documented at inception.

Changes in the fair value of the derivatives are recognised in the Income and Expenditure Account and are matched with changes in the fair value of the hedged item, that are attributable to the hedged risk.

Hedge accounting is discontinued when:

- The hedge no longer meets the criteria for hedge accounting
- The derivative expires, is sold or is terminated
- The hedged item matures, is sold or repaid

Tangible Fixed Assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Fixed assets are considered for impairment on an annual

Notes to the Accounts

basis. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over its estimated useful economic life as follows:

- Office equipment 3 to 7 years straight-line basis
- Motor vehicles 25% per annum reducing balance basis
- Leasehold improvements over the period of the lease, or expected term if different
- Freehold buildings 50 years straight-line basis
- Impairment of assets is assessed annually and charged straight to the income statement

Intangible Assets

Purchased computer software, which is not an integral part of the related hardware, is recognised as an intangible asset at cost and amortised on a straight-line basis over the estimated useful life of 3-7 years. A provision is made for any impairment.

Other Income

Other operating income includes rental income paid to the Austin Friars subsidiary and other sundry income. Rental income is recognised in the Income and Expenditure Account on a straight-line basis over the term of the leases.

Judgements in Applying Accounting Policies and Critical Accounting Estimates

The Group and Society makes judgements in applying its accounting policies which affect the amounts recognised in the financial statements. Where the application of the group's accounting policy requires elements of both judgement and estimation, the Group considers these assessments to be accounting estimates.

Management considered whether any changes to key judgements and estimates were required at 30th April 2021, in light of the COVID-19 pandemic coinciding with the Society's year end; and concluded that changes were required to the provision for bad and doubtful debts. These changes were necessary to account for the potential increases in loan loss impairments resulting from customers who are facing financial difficulties. The details are included in Note 11.

The most significant areas where judgements and estimates are made are as follows and have been reviewed by the Audit Committee as detailed in the Audit Committee Report on **page 35**.

Impairment Provision on Loans and Advances

The Society reviews its loans to assess impairment. For both specific and collective provisions, judgement is required to be exercised in predicting the length of time before impairments are identified such as the time it takes for a loan to enter into arrears (i.e. emergence period), likely default rates on arrears, and the forced sale discount. On any subsequent sale of property an increase in the forced sale discount of 5% would result in a movement of the provision of £0.1m (2020: £0.1m). Loans are treated as impaired from 1 month in arrears. Further detail is given in Note 11.

Effective Interest Rate (EIR)

Under IAS 39, financial instruments carried at amortised cost are accounted for using the EIR method. The EIR method requires the Society to make assumptions regarding the expected lives of financial instruments and the anticipated level of early repayment fees. These assumptions are regularly reviewed to ensure they reflect actual performance. Judgement is used to assess which mortgage products have similar characteristics which are then grouped to calculate their respective average behavioural lives. Average lives are then estimated based on behavioural data. The impact of revisionary behavioural lives, onto SVR, going to zero would result in a £1.5m (2020: £0.7m) reduction to the EIR asset.

Impairment of Fixed Assets

The Society's Head Office is being depreciated in line with the Society's policy. We performed a value in use calculation at 30th April 2021 to support the carrying value and no further impairment was required.

Retirement Benefit Obligations

The Society operates a defined benefit pension scheme. The Group and Society makes significant judgements to calculate the present value of the retirement benefit obligations in respect of mortality, price inflation, discount rates and pension increases. In making these judgements the Group was also required to consider the two issues that were identified through a review of the scheme deed and rules (see Note 21) during prior years. The reported liability, service cost and expected return on pension plan assets can be impacted by changes in the assumptions used. Of these assumptions the most significant in terms of its impact upon the financial statements is the discount rate applied to determine the scheme's liabilities. A decrease of 0.5% (2020: 0.1%)

in the discount rate applied will increase the deficit by approximately £2m (2020: £0.31m).

Further details on the assumptions used in valuing retirement benefit obligations can be found in Note 21.

	Group and Society	
	2021	**2020**
	£000	**£000**
2. Interest receivable and similar income		
On loans fully secured on residential property	26,318	24,281
On other loans	884	1,028
On liquid assets	464	1,470
Net expense on financial instruments	(3,630)	(1,351)
	24,036	25,428
3. Interest payable and similar charges		
On shares held by individuals	8,520	11,070
On deposits and other borrowings	632	1,487
Net Income on financial instruments	-	(85)
	9,152	12,472
4. Other fair value gains and losses		
Gain/(Loss) on derivatives	4,804	(8,459)
(Loss)/Gain on hedged items attributable to the hedged risks	(4,218)	7,049
Net gain/(loss)	586	(1,410)

Notes to the Accounts

5. Financial Instruments

Derivatives

The Society makes use of derivative instruments to mitigate the effect of changing interest rates. The principal derivatives which can be used in risk management are interest rate swaps, forward rate agreements, caps, floors and interest rate options which can be used to hedge exposures arising from the interest rate risk on fixed rate mortgage lending and savings products, and funding and investment activities.

The derivative instruments currently utilised by the Society are interest rate swaps. These are used to protect the Society from interest rate risk relating to fixed rate mortgage lending. All hedges are supported by comprehensive hedging documentation as per the requirement in FRS 102 with the adoption of IAS 39. The Society utilises the derivative instruments for hedging purposes only and no such instruments are used for trading activity or speculative purposes. All fair value hedges are against 3-month LIBOR or SONIA.

Under an interest rate swap, the Society agrees with an approved counterparty to exchange at specified intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal does not represent the Society's exposure to credit risk which is assessed by reference to its replacement cost if the counterparty defaulted.

The Society has decided to implement the requirements of IAS 39 allowing the Society to use macro hedging to reduce the volatility in the Income and Expenditure Accounts by allowing the Society to offset fair value movements on derivatives by applying fair value adjustments to the underlying hedged items.

The Society uses the fair value hedge option to apply the standard.

In July 2017, the FCA announced that the regulator would no longer compel banks to sustain LIBOR beyond 2021 (the FCA have received a voluntary agreement from the LIBOR panel banks to continue to submit to LIBOR until end-2021, to enable time for the market to transition away from LIBOR). The Group and Society therefore expects that LIBOR will continue to exist as a benchmark rate until December 2021. The Group and Society does not anticipate changing hedged risk to a different benchmark. For these reasons, the Group and Society does not consider its fair value hedges of the LIBOR benchmark interest rate to be directly affected by interest rate benchmark reform at 30th April 2021.

In September 2019, the IASB issued amendments to IAS 39, IFRS9 and IFRS7 to address uncertainties related to the market wide reform of interbank offered rates. The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS39 or IFRS9. They are effective for periods beginning on or after 1st January 2020. The Society has chosen to adopt the amendments early. Under the reforms LIBOR will not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates has proposed the Sterling Overnight Index Average ("SONIA") as the basis of a replacement for LIBOR.

Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been 3-month LIBOR. The Society has therefore commenced a project to transition away from LIBOR to using a compounded SONIA rate on the assumption that this will replace LIBOR as the market standard. This transition will be achieved through the cessation of the use of LIBOR swaps for new hedges, the attrition of existing LIBOR swaps that mature before the end of 2021 and, where necessary, the replacement of existing LIBOR swaps that extend beyond 2021.

It is not anticipated that the Society will have to rely on the fallback clauses within swap contracts that extend beyond 2021 when the LIBOR market becomes illiquid, rather action will be taken well in advance of this to contractually replace the LIBOR legs of the swaps with SONIA. During August 2019, ALCO had authorised that all new swaps entered into would reference SONIA.

Swaps held that are in hedging relationships

	Group and Society	
	2021 £000	2020 £000
Notional value of LIBOR swap contracts used in hedges	295,500	376,000
Notional value of SONIA swap contracts used in hedges	234,000	92,000
Total notional value of swap contracts used in hedges held at 30th April	529,500	468,000
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	10,500	90,000
Notional value of LIBOR swap contracts used in hedges which mature after 2021	285,000	286,000
Unmatured interest rate contracts		
Notional principal amount as at 30th April	615,000	549,000
Replacement cost	1,247	2

Interest Rate Gap analysis

The Group and Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset.

The Directors are satisfied that the Group and Society was within its exposure limits and that assets and liabilities are well matched.

Notes to the Accounts

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30th April 2021 was as follows:

	3 months or less £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	238,366	-	-	-	345	238,711
Loans and advances to customers	393,091	45,803	110,881	581,143	5,254	1,136,172
Other assets including tangible fixed assets	-	-	-	-	10,646	10,646
	631,457	45,803	110,881	581,143	16,245	1,385,529
Liabilities						
Shares	855,398	64,774	55,166	116,156	757	1,092,251
Amounts owed to credit institutions and other customers	181,941	15,500	12,355	6,391	215	216,402
Other liabilities	-	-	-	-	13,320	13,320
Capital	-	-	1,000	14,000	48,556	63,556
	1,037,339	80,274	68,521	136,547	62,848	1,385,529
Impact of derivative instruments	456,853	23,500	(48,000)	(432,353)	-	-
Interest rate gap at 30th April 2021	50,971	(10,971)	(5,640)	12,243	(46,603)	-

The Group uses derivative financial instruments and exposure limits to mitigate the effect of adverse interest rate movements on net interest income. At 30 April 2021 the impact of a 2% parallel increase in interest rates (measured using calculated interest rate gap positions) was £1,430k adverse across the gap report horizon (2020: £233k adverse). At 30 April 2021 the impact of a 2% parallel decrease in interest rates (measured using calculated interest rate gap positions) was £1,430k favourable across the gap report horizon (2020: £233k favourable).

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30th April 2020 was as follows:

	3 months or less	More than 3 months but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000
Assets						
Liquid assets	197,276	12,500	-	-	246	210,022
Loans and advances to customers	367,983	57,970	57,014	533,795	9,917	1,026,679
Other assets including tangible fixed assets	-	-	-	-	10,395	10,395
	565,259	70,470	57,014	533,795	20,558	1,247,096
Liabilities						
Shares	665,827	42,472	38,444	135,209	1,403	883,355
Amounts owed to credit institutions and other customers	229,051	25,100	13,950	17,246	540	285,887
Other liabilities	-	-	-	-	16,083	16,083
Capital	-	-	-	-	61,771	61,771
	894,878	67,572	52,394	152,455	79,797	1,247,096
Impact of derivative instruments	489,000	(32,000)	(33,500)	(423,500)	-	-
Interest rate gap at 30th April 2020	159,381	(29,102)	(28,880)	(42,160)	(59,239)	-

Notes to the Accounts

5. Financial Instruments (continued)

The table below analyses the Society's financial instruments as at 30th April 2021.

Assets/(Liabilities)	At amortised cost £000	Loans and Receivables £000	At fair value through OCI £000	Fair value through profit & loss £000	Non-financial assets £000	Total £000
Assets						
Cash	609	-	-	-	-	609
Loans and advances to credit institutions	-	157,750	-	-	-	157,750
Debt securities	80,352	-	-	-	-	80,352
Loans and advances to customers	-	1,136,172	-	-	-	1,136,172
Derivative financial instruments	-	-	-	1,247	-	1,247
Total financial assets	80,961	1,293,922	-	1,247	-	1,376,130
Non-financial assets	-	-	-	-	9,399	9,399
	80,961	1,293,922	-	1,247	9,399	1,385,529
Liabilities						
Shares	1,002,010	-	-	-	-	1,002,010
Amounts owed to credit institutions and other customers	306,643	-	-	-	7,441	314,084
Derivative financial instruments	-	-	-	5,879	-	5,879
Total financial liabilities	1,308,653	-	-	5,879	7,441	1,322,433
Non-financial liabilities	-	-	-	-	-	-
Reserves	-	-	-	-	63,556	63,556
	1,308,653	-	-	5,879	70,997	1,385,529

5. Financial Instruments (continued)

The table below analyses the Society's financial instruments as at 30th April 2020.

Assets/(Liabilities)	At amortised cost £000	Loans and Receivables £000	At fair value through OCI £000	Fair value through profit & loss £000	Non-financial assets £000	Total £000
Assets						
Cash	584	-	-	-	-	584
Loans and advances to credit institutions	-	116,429	-	-	-	116,429
Debt securities	78,018	-	14,991	-	-	93,009
Loans and advances to customers	-	1,026,679	-	-	-	1,026,679
Derivative financial instruments	-	-	-	2	-	2
Total financial assets	78,602	1,143,108	14,991	2	-	1,236,703
Non-financial assets	-	-	-	-	10,393	10,393
	78,602	1,143,108	14,991	2	10,393	1,247,096
Liabilities						
Shares	883,355	-	-	-	-	883,355
Amounts owed to credit institutions and other customers	285,887	-	-	-	-	285,887
Derivative financial instruments	-	-	-	9,438	-	9,438
Total financial liabilities	1,169,242	-	-	9,438	-	1,178,680
Non-financial liabilities	-	-	-	-	6,645	6,645
Reserves	-	-	-	-	61,771	61,771
	1,169,242	-	-	9,438	68,416	1,247,096

Notes to the Accounts

5. Financial Instruments (continued)

Fair Values of Financial Assets and Liabilities

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. The Society measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments
- Level 2: valuation techniques for which all significant inputs are based on observable market data
- Level 3: valuation techniques for which significant inputs are not based on observable market data

Where applicable, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments, the Society determines fair values using other valuation techniques. The table below analyses the Society's financial instruments carried at fair value at 30th April 2021.

	Group and Society	
	2021 £000	2020 £000
Financial assets		
Debt securities issued by other borrowers	-	14,991
Derivative financial instruments	1,247	2
Financial liabilities		
Derivative financial instruments	5,879	9,438

The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

a) Debt Securities – Level 1

The fair value of debt securities is calculated by reference to market prices.

b) Derivative Financial Instruments – Level 2

The fair value of derivative financial instruments is calculated using observable market data.

Credit Risk

The Group's maximum exposure to credit risk is detailed in the table below:

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Loans and advances to credit institutions	157,750	116,429	157,750	116,429
Debt Securities	80,352	93,009	80,352	93,009
Loans and advances to customers	1,136,172	1,026,679	1,136,172	1,026,679
Derivative assets	1,247	2	1,247	2
	1,375,521	1,236,119	1,375,521	1,236,119

Credit risk on loans and advances to customers is shown net of provisions of £1,539k (2020: £1,006k). The Group's total credit risk exposure to mortgage book and undrawn commitments is £1,188m (2020: £1,076m).

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The Group's and Society's Treasury Policy permits lending to central government (which includes the Bank of England), UK local authorities, banks with a high credit rating and building societies. The Group and Society performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

An analysis of the Group's treasury asset concentration is shown in the table below:

	Group		Group	
Industry Sector	2021 £000	2021 %	2020 £000	2020 %
Banks	95,340	39	91,989	44
Building Societies	6,041	3	9,521	4
Central Government	138,577	58	107,928	52
	239,958	100	209,438	100

b) Loans and Advances to Customers

The Society adopts a prudent lending approach to our mortgage customers which helps ensure that our default rates are low. For new customers, the Society relies upon adherence to its Responsible Lending Policy. For existing customers who subsequently apply for additional lending, the same process is adopted. All mortgage applications are overseen by the Lending Operations Team who ensure that all information submitted within the application is validated and loans are approved in line with appropriate lending mandate levels. Credit risk management information is comprehensive and is monitored by the Mortgage Lending Risk Committee.

Notes to the Accounts

5. Financial Instruments (continued)

LTV Analysis
Residential

	Group 2021 %	Group 2020 %
The Society's loan book is split between		
0-50%	25	26
50% to 60%	12	13
60% to 70%	8	13
70% to 80%	16	11
80% to 90%	22	16
90% to 100%	17	21
Total	100	100

LTV Analysis
Buy-to-Let

	Group 2021 %	Group 2020 %
0-50%	11	12
50% to 60%	11	14
60% to 70%	15	24
70% to 80%	61	47
80% to 90%	1	1
90% to 100%	1	2
Total	100	100

LTV Analysis
Commercial

	Group 2021 %	Group 2020 %
0-50%	37	35
50% to 60%	21	20
60% to 70%	18	25
70% to 80%	22	18
80% to 90%	0	0
90% to 100%	0	0
Greater than 100%	2	2
Total	100	100

The Society's loan book is comprised of loans fully secured on residential property, buy to let loans and commercial loans. The average loan to value on the loan book is 56% (2020: 55%). The increase on the prior year is in line with the Society's strategy to offer more first-time buyer mortgages. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a House Price Index (HPI). The collateral consists of residential or commercial property. Residential collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 30th April 2021. This HPI takes into account regional data. The Group uses the index to update the property values of its portfolios on a quarterly basis. Commercial property valuations have not been updated since loan origination.

5. Financial Instruments (continued)

The Society, as a regional building society, has a geographical concentration in Wales. An analysis of the Society's loan portfolio is provided below:

Geographical Split	Group		Group	
	2021 £000	2021 %	2020 £000	2020 %
Wales	514,924	45	516,389	50
South West	169,496	15	138,613	14
Midlands	107,839	9	89,744	9
Outer London	66,655	6	51,321	5
South East	68,934	6	57,373	5
Greater London	68,522	6	61,607	6
North West	51,976	5	40,148	4
Other	87,826	8	71,484	7
	1,136,172	100	1,026,679	100

Arrears Analysis	Group		Group	
	2021 £000	2021 %	2020 £000	2020 %
Neither past due or impaired	1,124,225	99	1,009,602	99
Past due up to 3 months	7,126	1	11,959	1
Past due up to 6 months	1,793	-	2,351	-
Past due 6 to 9 months	322	-	653	-
Past due over 9 months	2,706	-	2,114	-
	1,136,172	100	1,026,679	100

The above table shows the impairment status of the Society's loan portfolio. The amount included is the entire loan amount rather than just the overdue amount. The quality of the Group's mortgage book is reflected in the number and value of accounts in arrears by value. Only 0.4% (2020: 0.5%) is greater than three months in arrears. Specific provisions are calculated against impaired balances (see Note 11).

Notes to the Accounts

6. Administrative Expenses

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Staff costs	7,758	7,310	7,758	7,310
Auditor's remuneration:				
Statutory audit of Group and Society	155	135	155	135
Overrun from prior year audit*	-	50	-	50
Statutory audit of Subsidiary	5	4	5	4
Other services	-	-	-	-
Other expenses	4,115	3,713	4,163	3,773
	12,033	11,212	12,081	11,272

Included in staff costs are defined contribution pension scheme contributions of £386k (2020: £527k).
*Overruns from prior year's statutory audit related to predecessor auditor.

7. Taxation

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Current Tax:				
UK Corporation Tax charge/(credit)	353	(214)	336	(243)
Adjustments in respect of previous years	(38)	4	(38)	4
Total current tax charge/(credit)	315	(210)	298	(239)
Deferred Tax:				
Origination and reversal of timing differences	31	11	31	11
Adjustments in respect of previous years	(25)	(4)	(25)	(4)
Effects of changes in tax rates	-	4	-	4
Total deferred tax charge	6	11	6	11
Total tax charge/(credit) per Income and Expenditure Account	321	(199)	304	(228)
Equity items				
Deferred tax (credit)	(57)	(370)	(57)	(370)
Total tax charge/(credit)	264	(569)	247	(598)

7. Taxation (continued)

The Society was subject to corporation tax of 19% for the year (2020: 19%).

The charge for the year can be reconciled to the profit in the Income and Expenditure Account as follows:

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Profit/(Loss) for the period	1,887	(1,195)	1,834	(1,284)
Effects of:				
Tax at 19% thereon (2020: 19%)	365	(227)	348	(244)
Expenses not deductible	19	28	19	17
Income not taxable	-	(6)	-	(6)
Adjustments from previous periods	(63)	(1)	(63)	(1)
Qualifying charitable donations	-	1	-	1
Tax rate changes	-	6	-	5
Tax charge/(credit) for the period	321	(199)	304	(228)
Statement of Financial Position				
Current tax payable/(receivable)	286	(427)	286	(452)
Deferred tax asset	(755)	(705)	(755)	(705)
Deferred tax (assets)/liabilities:				
Deferred tax asset at start of period	(705)	(346)	(705)	(346)
Deferred tax credit to income statement for the period	31	15	31	15
Adjustment in respect of prior years	(24)	(4)	(24)	(4)
Deferred tax (charge)/credit in equity for the period	(57)	(370)	(57)	(370)
Deferred tax asset at end of period	(755)	(705)	(755)	(705)
Fixed asset timing differences	124	159	124	159
Short-term timing differences - trading	(879)	(864)	(879)	(864)
	(755)	(705)	(755)	(705)
Deferred tax (assets) recoverable in 12 months	(879)	(864)	(879)	(864)
	(879)	(864)	(879)	(864)
Deferred tax liabilities recoverable in 12 months	124	159	124	159
	124	159	124	159

Notes to the Accounts

8. Other Loans and Advances to Credit Institutions

Other loans and advances to credit institutions mature from the date of the Statement of Financial Position as follows:

	Group and Society	
	2021 £000	2020 £000
Accrued interest	-	28
Maturing in not more than three months	-	1,000
Maturing in more than three months but not more than one year	-	2,500
	-	3,528

The Society held no fixed term deposits as at 30th April 2021.

9. Debt Securities Issued by Other Borrowers

Debt securities, mature from the date of the Statement of Financial Position as follows:

	Group and Society	
	2021 £000	2020 £000
Accrued interest	230	82
Maturing in not more than one year	4,122	14,988
Maturing in more than one year	76,000	77,939
	80,352	93,009
Analysis of Debt Securities:		
Issued by public bodies	-	14,991
Issued by other borrowers	80,352	78,018
	80,352	93,009

10. Loans and Advances to Customers

The contractual maturity of advances secured on residential property and other advances secured on land from the date of the Statement of Financial Position is as follows:

	Group and Society	
	2021 £000	2020 £000
In not more than three months	4,898	6,294
In more than three months but not more than one year	7,472	2,654
In more than one year but not more than five years	57,694	54,306
In more than five years	1,067,647	964,431
	1,137,711	1,027,685
Provisions for bad and doubtful debts (Note 11)	(1,539)	(1,006)
	1,136,172	1,026,679
Loans fully secured on residential property	1,116,354	1,003,752
Other loans – fully secured on land	19,818	22,927
	1,136,172	1,026,679

The Society has encumbered £244.8m (2020: £246.4m) of mortgage assets through the Bank of England's Sterling Monetary Framework (SMF). The SMF facilities are accessed via the placement of eligible collateral in the form of approved mortgage portfolios. SMF transactions do not involve the transfer of risk on the collateral and hence fail the derecognition criteria under FRS 102. Therefore, for accounting purposes, the underlying collateral is retained on the Balance Sheet.

Notes to the Accounts

11. Provisions for Bad and Doubtful Debts

In light of the COVID-19 pandemic, the Society has reviewed its assumptions within the impairment model and has made some additional provisions due to the increased level of uncertainty.

Changes to assumptions included a house price stress and increased probability of default which generated an additional provision of £476k. A further collective provision was made for COVID-19 to reflect the increased credit risk associated with the whole of the loan book. Currently the collective model includes incurred but not reported (IBNR) loans where an impairment has been incurred but not reported to the Group. An overlay to this calculation is considered appropriate to reflect the change in the current economic environment due to the pandemic. The changes to assumptions made were a combination of increases to probability of default, an increase in forced sale discounts and a reduction in the emergence period. This resulted in an additional provision of £75k.

These additional COVID-19 provisions (total £551k) are driving the increase from £1,006k at 30th April 2020 to £1,539k at 30th April 2021 as shown below:

	Group and Society				
	Residential		Commercial		
	Specific £000	Collective £000	Specific £000	Collective £000	Total £000
At 1st May 2020	638	198	170	-	1,006
Amounts utilised in year	-	-	(146)	-	(146)
Charge for the year	217	66	370	26	679
At 30th April 2021	855	264	394	26	1,539
At 1st May 2019	253	123	129	1	506
Amounts utilised in year	-	-	(203)	-	(203)
Charge for the year	385	75	244	(1)	703
At 30th April 2020	638	198	170	-	1,006

12. Investments

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Shares in subsidiaries	-	-	2,075	2,075
Shares in other investments (Mutual Vision Technologies)	369	369	369	369
	369	369	2,444	2,444

With the objective to streamline the group structure, the investments in the following non-trading subsidiaries have been written off in preparation for strike off:
Monmouthshire Insurance Services Ltd
Monmouthshire Independent Financial Advisers Ltd
MBS Developments Ltd

The Society holds directly the following interests in subsidiaries and other investments:

	Country of registration and of incorporation	Principal activity	Class of shares held	Interest of Society
Austin Friars (Newport) Development Company Ltd	England & Wales	Property Company	Ordinary	100%
Monmouthshire Insurance Services Ltd	England & Wales	Dormant	Ordinary	100%
Monmouthshire Independent Financial Advisers Ltd	England & Wales	Dormant	Ordinary	100%
MBS Developments Ltd	England & Wales	Dormant	Ordinary	100%
Mutual Vision Technologies Ltd	England & Wales	Computer Software Developer	Ordinary	33.87%

The Group does not account for Mutual Vision Technologies Ltd as an associated company as the Society does not exercise significant influence over the company. Mutual Vision Technologies Ltd registered office is Unit 7, Millbank House, Bollin Walk, Wilmslow, SK9 1BJ.

Monmouthshire Building Society is registered in the United Kingdom. Its principal place of business is Monmouthshire Building Society, Monmouthshire House, John Frost Square, Newport, South Wales, NP20 1PX. The registered office and principal place of business of each subsidiary is the same as that of the Society.

13. Derivative Financial Instruments

	Contractual Amount	Fair Value Assets	Fair Value Liabilities
	£m	£000	£000
At 30th April 2021			
Unmatched derivatives	85	94	(27)
Derivatives designated in hedging relationships	530	1,153	(5,852)
	615	1,247	(5,879)
At 30th April 2020			
Unmatched derivatives	94	2	(375)
Derivatives designated in hedging relationships	468	-	(9,063)
	562	2	(9,438)

Interest rate swaps are matched to specific issuances of fixed rate retail shares or loans. All hedges are supported by comprehensive hedging documentation as per the requirement in FRS 102 with the adoption of IAS39. The Society utilises the derivative instruments for hedging purposes only and no such instruments are used for trading activity or speculative purposes. All fair value hedges are against 3 month LIBOR or SONIA.

In July 2017, the FCA announced that the regulator would no longer compel banks to sustain LIBOR beyond 2021.
More information on the discontinuation of LIBOR is given in Note 5.

Notes to the Accounts

14. Intangible Fixed Assets

	Computer Software
Group and Society	£000
Cost	
At 1st May 2020	2,431
Additions	281
At 30th April 2021	2,712
Amortisation	
At 1st May 2020	1,239
Charge for the year	343
At 30th April 2021	1,582
Net Book Value	
At 30th April 2021	1,130
At 30th April 2020	1,192

	Computer Software
	£000
Group and Society	
Cost	
At 1st May 2019	2,948
Additions	44
Disposals	(561)
At 30th April 2020	2,431
Amortisation	
At 1st May 2019	1,365
Charge for the year	435
Disposals	(561)
At 30th April 2020	1,239
Net Book Value	
At 30th April 2020	1,192
At 30th April 2019	1,582

15. Tangible Fixed Assets

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1st May 2020	7,281	482	1,710	9,473
Additions	-	-	7	7
Disposals	-	-	(100)	(100)
At 30th April 2021	7,281	482	1,617	9,380
Depreciation				
At 1st May 2020	1,688	261	1,165	3,114
Charge for the year	133	93	148	375
Disposals	-	-	(58)	(58)
At 30th April 2021	1,821	354	1,256	3,431
Net Book Value				
At 30th April 2021	5,460	128	361	5,949
At 30th April 2020	5,593	221	545	6,359

Notes to the Accounts

15. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society	£000	£000	£000	£000
Cost				
At 1st May 2020	2,851	2,863	1,658	7,372
Additions	-	-	7	7
Disposals	-	-	(100)	(100)
At 30th April 2021	2,851	2,863	1,565	7,279
Depreciation				
At 1st May 2020	616	792	1,112	2,520
Charge for the year	95	93	161	349
Disposals	-	-	(72)	(72)
At 30th April 2021	711	885	1,201	2,797
Net Book Value				
At 30th April 2021	2,140	1,978	364	4,482
At 30th April 2020	2,235	2,071	546	4,852

15. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1st May 2019	6,943	578	2,878	10,399
Additions	589	47	39	675
Disposals	(251)	(143)	(1,207)	(1,601)
At 30th April 2020	7,281	482	1,710	9,473
Depreciation				
At 1st May 2019	1,624	322	2,186	4,132
Charge for the year	75	78	186	339
Disposals	(37)	(144)	(1,207)	(1,388)
At 30th April 2020	1,662	256	1,165	3,083
Net Book Value				
At 30th April 2020	5,619	226	545	6,390
At 30th April 2019	5,319	256	692	6,267

Notes to the Accounts

15. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society	£000	£000	£000	£000
Cost				
At 1st May 2019	2,513	2,959	2,826	8,298
Additions	589	47	39	675
Disposals	(251)	(143)	(1,207)	(1,601)
At 30th April 2020	2,851	2,863	1,658	7,372
Depreciation				
At 1st May 2019	578	858	2,133	3,569
Charge for the year	75	78	186	339
Disposals	(37)	(144)	(1,207)	(1,388)
At 30th April 2020	616	792	1,112	2,520
Net Book Value				
At 30th April 2020	2,235	2,071	546	4,852
At 30th April 2019	1,935	2,101	693	4,729

16. Shares

	Group and Society	
	2021	2020
	£000	£000
Held by individuals	**1,002,010**	883,355

Shares are repayable from Statement of Financial Position date in the ordinary course of business as follows:

	2021	2020
	£000	£000
Accrued interest	803	1,372
On demand	440,582	281,839
In not more than three months	361,989	378,089
In more than three months but not more than one year	78,779	95,757
In more than one year but not more than five years	119,857	126,298
	1,002,010	883,355

17. Amounts Owed to Credit Institutions

Amounts owed to credit institutions are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

	Group and Society	
	2021	2020
	£000	£000
Accrued interest	26	82
In not more than three months	2,500	15,500
In more than three months but not more than one year	6,323	47,000
In more than one year but not more than five years	81,392	35,715
	90,241	98,297

Amounts owed to credit institutions includes £75,006k (2020: £74,029k) of Term Funding Scheme and Indexed Long-term Repo funding from the Bank of England. Security for this is given in the form of collateralised mortgages.

18. Amounts Owed to Other Customers

Amounts owed to other customers are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

	Group and Society	
	2021	2020
	£000	£000
Accrued interest	142	488
On demand	91,894	98,622
In not more than three months	99,381	50,733
In more than three months but not more than one year	24,985	31,215
In more than one year but not more than five years	-	6,532
	216,402	187,590

19. Other Liabilities

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Falling Due within One Year:				
Loans from subsidiaries	-	-	718	718
Corporation tax payable/(receivable)	286	25	286	-
Other creditors	1,881	1,571	1,861	1,566
	2,167	1,596	2,865	2,284

Notes to the Accounts

20. Provisions for Liabilities

	FSCS Levy	Other Provisions	Total
	£000	£000	£000
Group and Society			
At 1st May 2020	-	124	124
Amounts utilised	-	(124)	(124)
Charge for the year	32	-	32
At 30th April 2021	32	-	32

Other provisions related to redundancy costs.

Financial Services Compensation Scheme Levy

Based on its share of protected deposits, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. Since 2008, a number of institutions were declared in default by the PRA (formerly FSA).

The FSCS provision was fully paid during the financial year.

21. Information Regarding Directors and Employees

a) Employment

	Group and Society	
	2021	2020
	£000	£000
Costs (excluding non-executive Directors):		
Wages and salaries	6,819	5,948
Social security costs	553	679
Other pension costs	386	683
	7,758	7,310

Employees

	Group		Society	
	2021	2020	2021	2020
Average number employed during the year:				
(i) at the Society's Head Office:				
Full-time	120	122	120	122
Part-time	16	16	16	16
(ii) at Branch Offices:				
Full-time	26	25	26	25
Part-time	33	36	33	36
	195	199	195	199

b) Other Pension Costs

The Society operates both a defined contribution scheme and a defined benefit final salary pension scheme. The assets of the scheme are held separately from those of the Society and are invested by the scheme fund manager. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent full actuarial valuation was at 6th April 2019.

This showed that the market value of the scheme's assets at that time was £13.2m. From 5th April 2005, members' pensionable salary increases were restricted to the lower of RPI or 5%.

The Society has taken the decision to close its defined benefit pension scheme to future accrual. In reviewing the scheme deed and rules, two issues were identified with the calculation of the future liability within the scheme. The first issue relates to the incorrect calculation of pensions. These calculations did not take into account the amendments to the pensionable earnings definition over time in the scheme's applicable governing trust deed and rules. Given that the impact of the issue occurred in prior accounting periods, the amount of the correction as at 1st May 2018 was to increase the pension scheme liability by £1,129k and increase the deferred tax asset associated with that liability by £215k with a corresponding net £914k reduction in reserves. There is a further £106k pension scheme liability increase in 2018/19, resulting in a total impact to reserves of £1,020k as at 30th April 2019. The impact on the results for the year ended 30th April 2019 has been set out in the table below. The second issue relates to the original drafting of the scheme rules dating back to 1994. The Directors have considered the impact of this issue and based on legal advice received have considered to believe this is remote and not material and do not believe there is a material impact on the accounts. The table below sets out the impact of the adjustments on the Group. The adjustments impact both the Group and Society.

Pension Valuation

The results of an actuarial review consistent with methods described in FRS 102 are as follows:

The amounts recognised in the Statement of Financial Position:	Group and Society	
	2021	2020
	£000	£000
Present Value of Funded Obligations	18,314	18,179
Fair Value of Fund Assets	(14,389)	(13,877)
Deficit	3,925	4,302

The amounts recognised in the Statement of Other Comprehensive Income	2021 £000	2020 £000
Actuarial gain on plan assets	399	144
Actuarial loss on defined benefit obligation	(237)	(1,849)
Total gains/(losses)	162	(1,705)
Actuarial (loss)/gain on defined benefit obligation		
Of which due to experience	-	(688)
Of which due to demographic assumptions	-	175
Of which due to financial assumptions	(237)	(1,336)
Actuarial loss on defined benefit obligation	(237)	(1,849)

Notes to the Accounts

Pension Valuation (continued)

Changes in the Present Value of the Defined Benefit Obligation:	2021 £000	2020 £000
Liabilities at the beginning of the period	18,179	16,191
Interest cost	306	417
Service cost	26	86
Contributions by members	9	38
Actuarial gain	237	1,849
Benefits paid	(443)	(402)
Liabilities at the end of the period	18,314	18,179

Changes in the Fair Value of Plan Assets:	2021 £000	2020 £000
Fair value of plan assets at the beginning of the period	13,877	13,303
Interest income	235	347
Actuarial gain/(loss)	399	144
Contributions by the employer	312	447
Contributions by members	9	38
Benefits paid	(443)	(402)
Fair value of plan assets at the end of the period	14,389	13,877

Analysis of Return on Plan Assets :	2021 £000	2020 £000
Interest income	235	347
Actuarial gain on plan assets	399	144
Return on plan assets	634	491

Major categories of plan assets as a percentage of total assets:

The fair value of plan assets includes the use of appropriate valuation techniques in accordance with FRS 102. These include publicly quoted indices for assets traded on the open market and investment managers' own, unaudited valuation models for assets that are not publicly traded.

	2021 £000	2021 %	2020 £000	2020 %
Equities	6,647	46	5,949	43
Bonds	6,734	47	6,440	46
Cash and Net Current Assets	(369)	(3)	99	1
Annuities	1,377	10	1,389	10
	14,389	100	13,877	100

Pension Valuation (continued)

Amounts Recognised in the Income Statement	2021 £000	2020 £000
Service cost (including Guaranteed Minimum Pension Costs)	26	86
Net interest cost	71	70
Total Pension expense	97	156

Principal Actuarial Assumptions at the Balance Sheet Date:	2021 %	2020 %
Discount rate	2.0	1.7
RPI price inflation	3.2	2.6
CPI price inflation	2.2	1.6
Rate of increase in salaries	3.2	2.6
Rate of increase in pensions in payment	3.1	2.6
Post retirement mortality	S2NxA CMI 2018 (1.00%)	S2NxA CMI 2018 (1.00%)

Life Expectancies	2021 years	2020 years
Current pensioners age 60 - males	26.2	26.2
Current pensioners age 60 - females	28.4	28.4
Future pensioners age 60 (currently age 40) - males	27.4	27.4
Future pensioners age 60 (currently age 40) - females	29.7	29.6

22. Capital and other Commitments

Capital commitments contracted for but not provided in these accounts were £nil (2020: £nil). The Group has undrawn lending commitments of £52m as at 30th April 2021 (2020: £50.9m). There are no impairments on these commitments. Credit risk is controlled through the Group and Society's lending policy.

Notes to the Accounts

23. Commitments Under Non-Cancellable Leases

The Group has the following commitments in respect of operating lease rentals:	2021 £000	2020 £000
Less than one year	176	184
Between one and five years	277	296
Greater than five years	116	147
	569	627

Total lease expenditure for the year was £184k (2020: £184k).

24. Commitments Under Non-Cancellable Leases

The Group leases out properties under non-cancellable operating leases for the following minimum future lease payments. There are no contingent rents:	2021 £000	2020 £000
Less than one year	18	18
Between one and five years	90	90
Greater than five years	54	72
	162	180

25. Other Assets

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Deferred tax	755	705	755	705
Corporation tax	-	452	-	452
Other sundry debtors	396	346	373	324
	1,151	1,503	1,128	1,481

26. Analysis of change in debt

	Group		
	2021 £000	Cashflows £000	2020 £000
Cash and cash equivalents:			
Cash in hand and balances with Bank of England	139,248	45,474	93,774
Loans and advances to credit institutions	19,111	(4,128)	23,239
	158,359	41,346	117,013
Borrowings:			
Amounts owed to credit institutions	(90,241)	8,056	(98,297)
	68,118	49,402	18,716

27. Related Parties

The remuneration of the Directors (including non-executive Directors), who are the key management personnel of the Group, is set out in the Directors' Remuneration Report on **page 49**.

Included within other assets is a loan of £352k to Mutual Vision Technologies (2020: £352k). During the 2020 financial year this loan was converted to equity as reflected in Note 12. Loans from subsidiaries of £718k (2020: £718k) are included within Other Liabilities.

The year-end positions in relation to related party companies are disclosed in Note 12 of these accounts. In addition, the Society undertook the following transactions with Group companies during the year:

	2021 £000	2020 £000
Rent paid to Austin Friars (Newport) Development Company Ltd	(60)	(60)
Loan interest from Mutual Vision Technologies Ltd	-	6

Loans to Directors

There was an aggregate of £545k (2020: £202k) outstanding at the end of the financial year in respect of secured advances made prior to or during the year to Directors. The increase was as a result of one Director taking a larger secured advance on their main property. As required by the Society's Rules, each Director has a share account.

28. Country by Country Reporting

- Name, nature of activities and geographical location: The Society has 4 subsidiaries and operates only in the United Kingdom.
- The principal activities of the Society are noted in the Directors' Report.
- The average number of employees is disclosed in Note 21 of the accounts.
- Net operating income and profit before tax is set out in the Income and Expenditure Accounts.
- Corporation tax paid is set out in the consolidated cash flow statement.
- No public subsidies were received in the year ended 30th April 2021.

Annual Business Statement

1. Statutory Percentages

	Percentages at 30th April 2021	Statutory Limit
	%	%
Proportion of business assets not in the form of loans fully secured on residential property (the "lending limit")	2	25
Proportion of shares, deposits and debt securities in the form of shares not held by individuals (the "funding limit")	23	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by sections 6 and 7 of the Building Societies Act 1986 as substituted by the Building Societies Act 1997 and are based upon the consolidated Statement of Financial Position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Statement of Financial Position plus provisions for bad and doubtful debts, less fixed assets and liquid assets. Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus provisions for bad and doubtful debts and interest in suspense.

2. Other Percentages

	2021	2020
	%	%
As a percentage of shares and borrowings:		
Gross capital	4.86	5.28
Free capital	4.34	4.83
Liquid assets	18.24	17.96
As a percentage of mean total assets:		
Profit after tax	0.12	(0.08)
Management expenses	0.97	1.02
Cost income ratio	83.07	103.83

Note: The above ratios have been calculated from the Group Statement of Financial Position.

(i) Gross capital represents total reserves.
(ii) Free capital represents gross capital and collective provision for bad and doubtful debts, less all tangible assets.
(iii) Shares and borrowings represent the aggregate shares, amounts owed to credit institutions and amounts owed to other customers.
(iv) Liquid assets represent the total of cash in hand, loans and advances to credit institutions and debt securities issued by other borrowers as shown in the Statement of Financial Position.
(v) Mean total assets is the average of the respective 2020 and 2021 figures.
(vi) Management expenses represent the aggregate of administrative expenses and depreciation.
(vii) Cost income ratio represents administrative expenses including depreciation divided by total operating income.

3. Information Relating to Directors and Other Officers

Name	Occupation	Date of birth	Date of appointment
T Barratt MBA, FT Post Dip NED, ICA Post Dip AML, Post Dip Fin, Dip FS, ACIB	Risk Specialist and Director	28.04.60	13.07.16
W J Carroll BSc (Hons), MSc, FCA	Chief Executive Officer	17.02.77	30.04.09
M Evans BSc (Hons), ACII FinstL, FCMI	Chartered Insurance Broker	08.10.77	24.06.21
D M Gunter	Chief Operating Officer	06.01.71	08.03.18
I J Jones BSc Econ (Hons), ACA	Finance Director	29.09.68	01.04.18
D R Lewis LLB (Hons), FCA (Chair)	Chartered Accountant	09.09.62	01.09.14
E L McKenzie BEng (Hons)	Chief Operating Officer	12.07.65	01.09.18
A D Morgan BSc (Hons), FCA	Chartered Accountant	21.09.52	01.10.13
R D Turner BA (Hons), MBA	Asset Manager Chief Executive Officer	06.07.60	25.09.15

Any notice or other document may be served on the Society under its rules by leaving it addressed to the Secretary or sending it by post to the Secretary at the Society's principle office.

Other Directorships and Appointments:

T Barratt	Omega Consultancy Limited
Mr W J Carroll	Monmouthshire Independent Financial Advisers Ltd Monmouthshire Insurance Services Ltd Austin Friars Development Company Ltd
M Evans	Elevate BC Ltd Llansteffan Castle Ltd Cirencester Friendly Society
I J Jones	A E Innovations Ltd
E L McKenzie	West Midlands Growth Company Tended Ltd Brunel Pension Partnership
A D Morgan	Geldards LLP (Independent Adviser) Power Poles Ltd
R D Turner	F M Capital Partners Ltd

Officers Name	Occupation
L Burgess BSc (Hons), MSc, Chartered MCIPD	Head of People & Culture
W J Carroll BSc (Hons), MSc, FCA	Chief Executive Officer
D M Gunter	Chief Operating Officer
I J Jones BSc Econ (Hons), ACA	Finance Director
D Mollison BA (Hons), SIRM	Chief Risk Officer

At 30th April 2021, W J Carroll had a service contract which is terminable by the Society by giving 12 months' notice.
I J Jones and D M Gunter had service contracts which are terminable at 6 months' notice.

Branch Offices and Agencies

Head Office and Main Branch Office

NEWPORT	Monmouthshire House, John Frost Square, Newport, NP20 1PX	Tel: 01633 844444 www.monbs.com

Branch Offices

BRECON	6b The Bulwark, LD3 7LB	Tel: 01874 641227
CAERLEON ROAD	183 Caerleon Road, NP19 7HA	Tel: 01633 254891
CALDICOT	27 Newport Road, NP26 4BG	Tel: 01291 437722
CHEPSTOW	19 High Street, NP16 5LQ	Tel: 01291 629306
CWMBRAN	8 The Parade, NP44 1PT	Tel: 01633 833933
HANDPOST	234 Stow Hill, NP20 4HA	Tel: 01633 213276
MONMOUTH	10 Agincourt Square, NP25 3DY	Tel: 01600 713383
RISCA	48 Tredegar Street, NP11 6BU	Tel: 01633 613181
SWANSEA	18 Union Street, SA1 3EH	Tel: 01792 657460

Agency Offices

ABERGAVENNY	Bidmead, Cook & Waldron Estate Agents 15 High Street, NP7 5RY	Tel: 01873 853640
ABERTILLERY	Simon Thompsett Associates Ltd 40 Church Street, NP13 1DB	Tel: 01495 211535
BLACKWOOD	UKTS Ltd 221 High Street, NP12 1AL	Tel: 01495 220003
CARDIFF	Beacon Independent Advice Ltd 18 Merthyr Road, Whitchurch CF14 1DG	Tel: 02920 618989
CLEVEDON	Newsham Hanson Limited Edinburgh House, 1-5 Bellevue Road, BS21 7NP	Tel: 01275 878548
COWBRIDGE	Brinsons Fairfax Estate Agents 67 High Street, CF71 7AF	Tel: 01446 774595
GRIFFITHSTOWN	Simon Thompsett Associates Ltd 12 Windsor Road, NP4 5HY	Tel: 01495 757121
HEREFORD	Trivett Hicks Estate Agents 18 Kings Street, HR4 9BX	Tel: 01432 274300
KENFIG HILL	Elite Independent Mortgages Ltd 61 Commercial Street, CF33 6DH	Tel: 01656 745065
PENARTH	Watts & Morgan Estate Agents 3 Washington Buildings, Stanwell Road CF64 2AD	Tel: 02920 711340
PORTISHEAD	Brooking, Ruse & Co Ltd 108 High Street, Portishead, Bristol, BS20 6AJ	Tel: 01275 845451
ROSS ON WYE	Trivett Hicks Estate Agents 53 Broad Street, HR9 7DY	Tel: 01989 764183
USK	M2 Estate Agents 17 Bridge Street, Usk. NP15 1BQ	Tel: 01291 673347

Monmouthshire
Building Society

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